

Annual Report

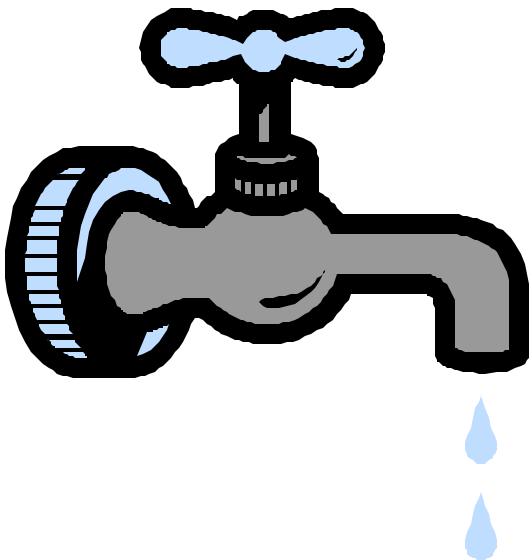
to

USEPA Region IX

Safe Drinking Water State Revolving Fund

State Fiscal Year
2000-2001 (July-June)

State of California
Department of Health Services



**SAFE
DRINKING
WATER
STATE
REVOLVING
LOAN FUND**
February 2002

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I. EXECUTIVE SUMMARY

This is the third report for California's Safe Drinking Water State Revolving Fund (SDWSRF) Program. This report is provided annually to the United States Environmental Protection Agency (USEPA) pursuant to the requirement of the Assistance Agreement. The California state agency responsible for administering this award is the California Department of Health Services (DHS). The SDWSRF Program resides in the Division of Drinking Water & Environmental Management. The Annual Report to USEPA follows the State of California's fiscal year reporting cycle of July 1, 2000 through June 30, 2001.

As of June 30, 2001 DHS had executed its third and fourth SDWSRF Assistance Agreements with the USEPA in the amounts of \$80,816,700 and \$83,993,100, respectively. The third Agreement was awarded on August 16, 2000 and the fourth on December 21, 2000. These Assistance Agreements are for the federal fiscal years (FFY) 1999 and 2000. The required California State matches of \$16,163,340 (20%) and \$16,798,620 (20%) were authorized by the California Electorate with the passage of Proposition 13 in March of 2000 with the approval of general obligation bonds. Bonds will be sold when needed to raise the funds for the state match. DHS had to separately identify \$323,267 of state overmatch money from the Public Water Supply Supervision Assistance Agreement (1:1 match) from 1993 and 2000 in order to budget the set-aside component Capacity Development for \$323,267 from the 1999 Assistance Award. The only set-aside taken from the FFY 2000 Assistance Award was in the amount of \$4,040,835 for Source Water Protection Loans. This brings the total Assistance Awards (which include the state match) for the reporting period to \$197,771,760 (\$96,980,040 + \$100,791,720) and the total allowable USEPA project cost to \$198,095,027 (\$97,303,307 + \$100,791,720) when factoring in the in-kind 1:1 match of \$323,267. The California State Legislature, however, modified the USEPA budget authority from \$197,771,760 to \$128,948,636, resulting in an understated budget variance of \$60,582,634 (see Table 1 on page 13 and Table 3 on page 14). DHS program staff is working with the Department's Budget Office to effectuate a technical fix and bring state budget authority into alignment with USEPA authority for the reporting period. In addition, budget variances from prior years are being addressed so that cumulative spending authority will balance with all the Assistance Awards received from the USEPA. Funding sources for the SDWSRF Program include the four Assistance Awards received (1997-2000) and from interest and principal repayments from loans. Principal repayments amounted to \$167,578 while interest payments were for \$160,293, bringing the total amount of revenue received in payments to \$327,871 (Appendix E).

Actual expenditures for State Fiscal Year (SFY) 2000/01 total \$61,489,787 (Table 2) for the reporting period. This is comprised of \$55,657,198 in loan disbursements and \$5,832,590 in set-aside expenditures. Accounting adjustments for prior reporting periods are restated for those years and also shown in Table 2.

The SDWSRF program is authorized for a total of 60.5 positions, which equate to 52 full-time employees (FTEs). The Administration set-aside has 23 FTEs, Capacity Development has 3 FTEs, Small Water Systems has 8 FTEs and Source Water Assessment has 18 FTEs. As of June 30, 2001, all positions were filled.

☐ Loan Program

The SDWSRF Loan Fund was budgeted for \$184,359,001 (\$71,603,596 + \$16,163,340 + \$79,793,445 + \$16,798,620) from the USEPA and State's contributions, and modified to \$117,817,000 under the State Budget Act. DHS program staff is working with the Department's Budget Office to effectuate a technical fix and bring state budget authority into alignment with USEPA authority for the reporting period. The \$184,359,001 is comprised of the state 20% match component of \$32,961,960 and that portion of the federal assistance agreement not used for set-asides, which amounts to \$151,397,041. Prior year's loan amounts with the state 20% match were budgeted for \$166,002,089. An amendment to the 1997 federal Assistance Award returned \$1,743,980 to the Loan Fund from set-aside accounts, bringing the total budgeted amount to \$167,746,069. This amount, when combined with the \$184,359,001 for this reporting period, totals \$352,105,070 (\$167,746,069 + \$184,359,001). Loan commitments (obligations) made against this amount as of June 30, 2001 total \$211,289,285 (\$93,875,778 from 1997 money, \$92,085,590 from 1998 money, and \$25,327,917 from 1999 money). The 20% state match is being met by the sale of general obligation bonds, which was approved by the California Electorate in March of 2000. See Table 5 for a listing of these loan commitments.

During the reporting period there were a total of sixteen (16) funded projects (closed loans and forgiveness of principal) valued at \$91,502,222. There were five funded projects from the previous reporting periods, bringing the cumulative funded projects to twenty-one (21). Cumulative project funding (Table 4) amounts to \$98,473,026 (\$95,473,026 in loans + \$3,000,000 forgiveness of principal). The \$98,473,026 is comprised of \$6,970,804 from prior reporting periods and \$91,502,222 from this reporting period. Cumulative disbursements for the loan fund amount to \$56,028,396 (\$371,198 from the prior year and \$55,567,198 from this year).

Long-term construction loans comprise the majority of the project financing to be made available and may include planning, design, acquisition, and construction costs. In addition, the following terms and conditions apply:

- The maximum length of the loan will be 20 years or the useful life of the project, whichever is shorter, unless an applicant is determined to be a disadvantaged community. If the latter is applicable, a term of 30 years may be allowed.
- The applicable interest rate will be 50% of the average interest rate paid by the state on the last bond sale of general obligation bonds issued in the prior calendar year. Disadvantaged communities have a zero interest rate.
- The maximum amount of loan financing to be awarded to a single project from any one capitalization grant will be \$20,000,000. DHS may increase this amount during September of each year (the last month to make loan commitments), if it determines that excess funds are available due to bypasses or other issues.
- All interest rates will be a fixed term for the life of the loan. No variable rates and no balloon payments will be allowed.

- In addition to the maximum loan amount per project described above, no public water system (PWS) with multiple projects shall receive a total amount of loans in excess of \$30,000,000 from any one capitalization grant.

In a few cases, some water systems may not be able to fund the preliminary planning needed to proceed with a full design and construction loan application. In such cases, an applicant may apply for a short-term planning loan. Unlike staged projects, funds from future years will not be reserved for projects receiving a short-term planning loan. The maximum loan amount for any single project shall not exceed \$100,000 with a maximum loan period of five years. The loan repayments may be combined with a long-term construction loan should one be subsequently awarded.

☐ Set-Asides

The Assistance Agreement provides for several set-asides, which are to be funded out of the federal capitalization grant. California was approved to use the 1999 & 2000 allocations in the following manner:

Administration - To administer the SDWSRF Program, California earmarked the maximum 4% set-aside allowed under the 1999 award, which totals \$3,232,668 (\$80,816,700 X 4%). This amount was modified to \$3,360,337, in the State Budget Act. A total of 26 administrative positions are authorized and equate to 23 FTE positions. Actual expenses for the reporting period totaled \$2,658,977 (See Table 2). No Administration set-aside was taken from the 2000 Assistance Award. The Department, however, reserves the right to use the 4% Administration set-aside in the future.

Capacity Development – This set-aside element was budgeted at 0.4% of the federal allocation for program management from the 1999 award, which totals \$323,267 (0.4% X \$80,816,700). The State Budget Act, however, authorized \$3,148,000 of expenditure authority. A Budget Change Proposal (BCP) was submitted to the California Department of Finance to realign state authority with federal authority for future years. This BCP also allows the SDWSRF Program to transfer the excess spending authority back into the SDWSRF Loan Fund to increase the amount of funding available for loans. Total expenditures through the end of June 30, 2000 were \$175,590 (See Table 2). Authorized positions for this set-aside are 3 and equate to 3 FTEs. No Capacity Development set-aside was taken from the 2000 Assistance Award.

Funds from this set-aside are used to (1) continue to implement the approved capacity development strategy and the SDWSRF Policy and Procedures Manual (2) continue to develop the Water Supply Permit Policy and Procedures Manual, (3) track program progress and make program revisions as necessary, (4) to continue to develop a capacity development data base system.

DHS has developed a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. This strategy was finalized in August of 2000 and accepted by EPA. Throughout this implementation process DHS will continue to solicit input from the State's technical advisory committee and other interested stakeholders.

DHS has developed performance criteria to determine whether a system has adequate TMF capacity. DHS has revised and intends to further revise the criteria based on input received from field use. DHS is in the process of developing policies and procedures for implementing capacity requirements. DHS has developed TMF capacity self-assessment forms and staff evaluation forms to be used to assess and document a water system's TMF capacity. All TMF related forms have been placed on the Department's Internet Site for easier accessibility by staff and water systems.

DHS has revised the Permit Policy and Procedures Manual so that it contains all policies and procedures needed by staff in implementing capacity development requirements. All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised and implemented by October 1, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs in California.

DHS is in the process of modifying its database system to more effectively track program data. The revisions will eventually enable DHS to (1) track information on the TMF capacity status of PWSs, (2) identify and track areas where water systems need to develop capacity, and (3) identify and track areas where water systems need technical assistance.

Small Water System Technical Assistance – The majority of California's 8,200 PWSs fall into the small water system (SWS) category (7,100 SWSs) and DHS is utilizing the entire portion of the Capitalization Grant allowed for this set-aside. The funds will be used to provide additional in-house technical staff and to contract with outside contractors to provide technical assistance to small systems. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the systems; and (4) establishing or improving the financial, technical, and managerial capability of the systems.

California chose to fund the Small Water System Technical Assistance set-aside element at 2% of the federal allocation (2% X \$80,816,700) from the 1999 Capitalization Grant, which totals \$1,616,334. This set-aside is authorized for a total of 10.5 positions, which equate to 8 FTEs. Actual expenditures for the reporting period were \$1,480,752.07 (Table 2). The remaining balance from the set-aside will be rolled into the loan corpus. No Small Water System Technical Assistance set-aside was taken from the 2000 Assistance Award.

Source Water Assessment Program (SWAP) – The funding for this program is being used to develop a SWAP program to delineate the boundaries of protection areas for drinking water sources, and identify possible contaminating activities within the delineated areas in order to assess the vulnerability of the water source to contamination. In California, the SWAP is incorporated into the Drinking Water Source Assessment and Protection (DWSAP) Program. USEPA endorsed the Department's DWSAP Program on April 26, 1999 and final approval was given on November 5, 1999.

In state fiscal year 2000/2001 the Department recorded 681 completed source water assessments (page 48). This brings the total completed assessments to 792 (5%).

The Department is contracting with 33 county environmental health agencies [local primacy agencies (LPAs)] for completion of drinking water source assessments for all active public drinking water sources under the regulatory jurisdiction of the LPA. The contracts run from June 1, 1999 through December 31, 2002 and total \$1,953,900. In 2000/01, payments to LPAs for DWSAP were \$169,998.

The Department is contracting with UC Davis Information Center for the Environment (UCD-ICE) to develop geographic information system applications and decision support tools for DWSAP. The original contract with UCD-ICE was for \$499,212. The contract was amended in April 2001 for \$152,352, bringing the total contract amount to \$651,634. In 2000/01, payments to UCD-ICE were \$0 due to UCD-ICE not invoicing DHS by June 30, 2001.

The one-time SWAP set-aside element was budgeted at 10% of the 1997 federal allocation, to be expended by May 2003 and totals \$7,568,260 (10% of \$75,682,600). Expenditures for last fiscal year amounted to \$1,517,269.82 (Table 2). As of June 30, 2001, cumulative expenditures against this set-aside amount to \$2,094,527. The unspent balance of \$5,473,733 will be rolled forward and made available until May 2003. Authorized positions for this set-aside are 21, which equate to 18 FTEs.

As part of the overall SWAP strategy, low interest source water protection (SWP) loans will be offered to PWSs beginning in SFY 2001/02 for source water protection. The Department intends to use \$8,240,490 that was set-aside from the FFY 1999 and 2000 Capitalization Grants, towards funding projects on the SWP priority list. Funding for this program will provide loans to PWSs for the purchase of land or conservation easements. The SWP loans will be treated as a subaccount within the SDWSRF loan fund.

II. INTRODUCTION

DHS is pleased to submit its third Annual Report on the SDWSRF Program for SFY 2000/01. The Report addresses operation of the SDWSRF during the time period from July 1, 2000 through June 30, 2001. During that period California received two capitalization grant awards, one each from the federal 1999 and 2000 allotments from USEPA for \$164,809,800 (\$80,816,700 + \$83,993,100). These allotments, when combined with the 1997 allotment of \$75,682,600 and the 1998 allotment of \$77,108,200, total \$317,600,600 for the four grant periods.

DHS provides this comprehensive report to the USEPA Regional Office and to the public to detail the activities undertaken to reach the goals and objectives set forth in the Intended Use Plan (IUP) developed for SFY 2000/01. The report documents the status of the program by describing the progress made toward long and short-term program goals, the sources (e.g., federal grants and state match) and uses of all funds, financial status of the SDWSRF, and compliance with federal Drinking Water State Revolving Fund requirements.

DHS presents the Annual Report in six major sections. Section I is an Executive Summary. Section II of the report provides an Introduction. Section III provides a summary of progress made toward reaching long and short-term goals. Section IV reports details on loan and set-aside activities. Section V provides an overview of financial conditions of the program. Section VI reports on DHS' compliance with provisions of the federal capitalization grant agreement and the operating agreement.

STATE OF CALIFORNIA SDWSRF – OVERVIEW

State Fiscal Years 98/99,99/00 & 00/01

| | | |
|--|------------------|---------------|
| Total Available Investment (loan amount): | | \$352,106,688 |
| Number of Projects (Closed Loans & principal forgiveness): | 20 | |
| Number of Projects (Principal Forgiveness only) | $\frac{1}{?}$ | 21 |
| TOTAL NUMBER OF PROJECTS: | | |
| Project Funding (Closed Loans): | \$95,473,026 | |
| (Forgiveness of Principal): | <u>3,000,000</u> | |
| TOTAL PROJECT FUNDING: | ? | \$98,473,026 |
| Total Population Served: | | 4,954,227 |
| Average Interest Rate: | | 1.82% |
| Average Repayment Period: | | 17.8 years |
| Small Systems Funded (<10,000 pop.): | 10 for | \$12,035,832 |
| Disadvantaged Community Funding: | 6 for | \$38,422,662 |
| Systems Receiving 0% Interest Loan: | 5 for | \$35,422,662 |
| Set-Aside Assistance (Cumulative): | | \$22,519,140 |

III. GOALS AND ACCOMPLISHMENTS

DHS developed the goals listed below for the SFY 2000/01 IUPs. The long-term goals provide a framework that guides DHS' management decisions for the SDWSRF program. The short-term goals support the implementation of the program's long-term goals.

A. Progress toward Long-Term Goals

1. ***Ensure that public water systems provide an adequate, reliable supply of safe clean drinking water.***

Progress Toward Goal 1: The SDWSRF program continues to lay the foundation for future improvements in California's safe drinking water supply. The program's first two-years of operation consisted mainly of program implementation but now there exists a viable loan program that provides ongoing subsidized funding for infrastructure improvements. During SFY 2000/01, \$211,289,285 of loan commitments (Table 1) were made to water systems against the 1997, 1998, & 1999 year federal grant and state match monies combined. This represents 53 water systems (a total of 65 projects) that are committed to improving the quality of water to their customers. Set-asides are used to fund Administration, Source Water Assessment and Protection, Capacity Development and Small Water System Technical Assistance. The SDWSRF loan program advances this basic goal of the Department by providing an ongoing source of funds for current and future infrastructure improvements.

2. ***Continue funding projects on the comprehensive multi-year Project Priority List (PPL).***

Progress Toward Goal 2: The Department is continuing to use the priority list process to direct SDWSRF loan funds to those projects that meet high priority needs. The PPL developed by the Department for the Capitalization Grant is revised and updated annually to include new projects. A PPL was updated in the spring of 2001 that was comprised of approximately 3600 projects submitted by approximately 1,650 PWSs. Approximately 60 of these preapplications relate to source water protection projects. Projects by-passed are not removed from the list but will be eligible for funding in subsequent years at the same time as new projects in the same category. The SDWSRF Program commenced loan commitments in June 1999.

3. ***Ensure the revolving nature of the SDWSRF loan fund.***

Progress Toward Goal 3: The SDWSRF loan fund provides a cost effective funding mechanism to assist public water systems in achieving and maintaining compliance with the Safe Drinking Water Act (SDWA). \$98,473,026 in loans representing 21 projects (18 water systems) were executed as of June 30, 2001. Loan repayments for principal and interest began during this reporting period and totaled \$327,871. Loans are tracked with an automated information management system to ensure that loan repayments are tracked and accounted for in order to maintain self-sufficiency of the fund once the federal Capitalization Grants cease. The Department will ensure that the revolving fund remains financially viable over the long term so

that repayments of existing loans will be sufficient to fund the issuance of new loans after the federal Capitalization Grants cease.

4. *Ensure that all PWSs achieve and maintain compliance with the SDWA.*

Progress Toward Goal 4: A fundamental goal of DHS is to ensure safe and reliable drinking water for all Californians. In furtherance of this goal, the ability to use the resources of the SDWSRF loan fund and set-aside programs enhances DHS' attempts to ensure that all PWSs have the technical, managerial and financial capacity to operate in compliance with the SDWA. Important elements of this include enhancing the technical knowledge of small water system personnel pertaining to compliance with regulatory requirements, and enhancing the technical knowledge of small water system operators regarding water treatment.

5. *Reduce the cost of drinking water.*

Progress Toward Goal 5: The loan resources of the SDWSRF Loan Program are assisting in minimizing the per-household cost of protecting public health and delivering safe drinking water by providing subsidized financing for the construction of technically sound drinking water infrastructure and by developing PWS monitoring plans based on the conditions surrounding the source water. It will also provide support and encourage managerial and technical competency of water systems to foster effective and efficient system operation.

B. *Progress Toward Short-Term Goals*

1. *Maintain an efficient and effective Safe Drinking Water SRF Program for the State of California through planned evaluation and revision of the program.*

Progress Toward Goal 1: DHS developed the SDWSRF program based on its own experience in regulating PWSs, on the knowledge and experience of the drinking water industry and based on considerable public input received. Public meetings were noticed and held at multiple locations throughout the state. The purpose of these meetings was to obtain public comment and gain support for the SDWSRF Program. DHS established task forces and committees of interested agencies and stakeholders to provide direction regarding program development. DHS also meets regularly with the USEPA Region IX staff to discuss its SDWSRF program development activities. Additionally, the program manager participates on the USEPA/States SDWSRF Workgroup and thus is in touch with concepts at USEPA and other states. As the Department proceeded through its third year of the program, a period of program evaluation and modification in response to identified areas requiring improvement is now appropriate. Standard procedures and processes for implementation of the program have been established and revised as needed.

2. *Continue implementation of the SDWSRF program.*

Progress Toward Goal 2: The first step in the process of implementing the SDWSRF program was the passage of enabling legislation (Senate Bill 1307). During this reporting period the Department applied for and received Federal Capitalization Grants from the FFY 1999 and 2000

allocations. The next step in the process was obtaining the 20 percent state match. The match is being provided from general obligation bond authority available to the California SDWSRF Program as a result of the passage by voters of Proposition 13 on March 7, 2000. That bond measure provided for the sale of \$1.97 billion in general obligation bonds for water related projects, including \$70 million for the SDWSRF Program. The state budget for SFY 2000/01 provides the Department with the authority to apply for and utilize the FFY 1999 and 2000 SDWSRF Capitalization Grants.

3. *Maintain a PPL and an IUP.*

Progress Toward Goal 3: DHS notified every eligible PWS in the state of the proposed SDWSRF loan program and invited pre-applications for eligible projects. During the initial pre-application period, a series of public workshops were held to discuss the preapplication process. The staff in the Department's district offices evaluated each preapplication and placed them in the appropriate health risk category. Bonus points were assigned based on the criteria developed by the Department. Regional Engineers and other departmental staff reviewed the PPL before its publication to ensure that the rating of the projects was consistent. The ranked listing of preapplications was compiled into a PPL. In 1999, the Department provided all public water systems with the opportunity to submit additional projects or update the information on projects already listed. The Department held two public hearings in January 2000 on the draft 1999 updated PPL for the SDWSRF and adopted the 1999 update listing effective April 11, 2000. In addition, the Department has invited community water systems and certain non-profit non-community water systems to submit preapplications for the Source Water Protection Project loan program priority list. The Department evaluated and ranked the proposed SWP projects, established a draft SWP project priority list, and included this list in the public hearing on the proposed list. The SWP PPL was adopted effective April 11, 2000.

4. *Determine the fundable portion of the PPL and invite eligible public water systems to apply for funding.*

Progress Toward Goal 4: An important goal of the SDWSRF Program is to fund those projects that are in high priority categories. DHS has determined that categories A through G are high priority categories. These categories contain projects to mitigate a current risk to public health or to correct a violation of the SDWA. DHS began inviting applications from eligible projects on the fundable list beginning in September 1998 (round 1) and as of June 30, 2001, has now progressed through round 8. The fundable list has invited projects from as far down the PPL as category L.

5. *Develop and implement the set-aside programs.*

Progress Toward Goal 5: DHS utilized portions of the Capitalization Grant to fund small water system technical assistance, capacity development and source water assessment and delineation programs. The Department implements these programs both by providing direct assistance to water systems, and by supporting local health department staff and outside providers to assist smaller water systems in meeting technical, managerial, and financial operations goals, and to aid these systems in applying for SDWSRF loan funds. For Federal Allocation Years 1999 and

2000, \$1,616,334 was set aside for small water system technical assistance, \$323,267 was for Capacity Development, \$3,232,668 for administration of the SDWSRF program and \$8,240,490 for Source Water Protection Loans. To implement these programs, DHS hired staff and entered into Interagency Agreements and third party contracts, as needed, to make maximum use of resources.

IV. SDWSRF LOAN AND SET-ASIDE ACTIVITIES

This section provides a detailed discussion of the SDWSRF assistance activities during SFY 2000/01. Details are provided on the sources of funding in DHS' program, the status of loan activities, and the status of set-aside activities.

Tables 1 and 2 provide information about the sources and uses of SDWSRF funding. Table 1 displays all sources of SDWSRF funds available in SFY 2000/01. It also shows the binding commitments, workplan goals, and administrative funding uses made for the year. Table 2 shows DHS' actual disbursements in SFY 2000/01.

Table 3 is a reconciliation between USEPA budget authority versus authority granted by the California State Legislature in the Budget Act. Each variance is explained.

Table 4 displays cumulative projects funded (closed loans). If a project also has a forgiveness of principal component as part of the funding, it is shown separate from the loan amount.

Table 5 displays loan commitments for the federal funding years.

Table 6 displays environmental clearances for SFY 2000/01.

A. Sources of SDWSRF Funding

The total allowable project costs available for the SDWSRF program in this reporting period total \$197,771,760. This is comprised of \$80,816,700 from the 1999 capitalization grant, \$83,993,100 from the 2000 capitalization grant, and another \$32,961,960 representing the 20% state match, which is in the form of general obligation bonds. DHS had to separately identify \$323,267 of state overmatch money from the Public Water Supply Supervision Assistance Agreement (1:1 match) from 1993 & 2000 in order to budget the capacity development set-aside component for \$323,267 from the 1999 Capitalization Grant.

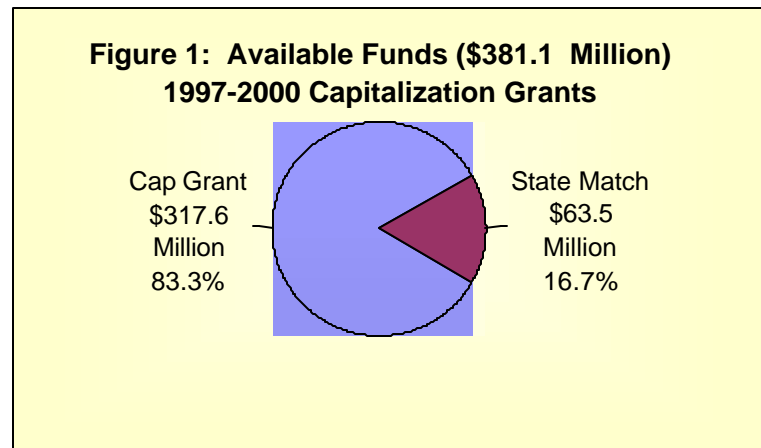
To date, DHS has applied for and received federal grants from the 1997 through 2000 grant allotment years. For the four years combined, DHS has USEPA authority to incur \$381,120,720 (\$90,819,120+\$92,529,840+\$96,980,040+\$100,791,720) of allowable project costs. These amounts do not include the 1:1 in-kind match. In the future, loan repayments will add to the available funding. For example, loan repayments for principal and interest during last year totaled \$327,871. DHS describes major aspects of the sources below.

☐ Capitalization Grants

In August of 2000, USEPA awarded the State of California its third federal capitalization grant in the amount of \$80,816,700. In December of 2000, USEPA awarded the State of California its fourth federal capitalization grant in the amount of \$83,993,100. The cumulative total for the four years of awards (1997-2000) is \$317,600,600.

☐ State Match

The State of California is providing \$32,961,960 as the required 20% state match for the FFY 1999 and 2000 Capitalization Grants. The 20% state match is being provided from general obligation bond authority available to the SDWSRF program as the result of the passage by voters of Proposition 13 on March 7, 2000. That ballot measure provided for the sale of \$1.97 billion in general obligation bonds for water related projects, including \$70 million for the Safe Drinking Water SRF loan program. The state budget for SFY 2000/01 provides the Department with the authority to apply for and utilize the FFY 1999 and 2000 SDWSRF funding for California. The cumulative total for the four years of state match is \$63,520,120 (See Figure 1).



☐ Repayments

Seven projects had principal and/or interest payments due during SFY 2000/01. The amounts totaled \$327,871 (See Table 1) and were comprised of \$167,578 in principal curtailment and \$160,293 in interest. Funding on PWS infrastructure projects began in SFY 1999/00 and repayments began in January 2001. Payments are due semiannually. The repayments (both principal and interest) are accounted for separately. The repayments have not yet been obligated. The loan corpus amount available for executing contracts with water systems as of June 30, 2001 was \$253,632,044 (\$184,359,001 in the loan fund from the 1999 & 2000 Capitalization Grants for this reporting period, \$166,002,089 in the loan fund from the 1997 & 1998 Capitalization Grants, a transfer of \$1,743,980 from set-aside accounts to the loan fund from an amendment to the 1997 federal grant, less \$95,473,026 of loan encumbrances and \$3,000,000 of principal forgiveness as of June 30, 2001).

☐ Investment Interest Earnings

The State of California had no investments this reporting period and therefore received no investment interest earnings. The state match of 20% to access the federal Capitalization Grants is obtained from the sale of general obligation bonds on an "as needed" basis to meet current needs and is not eligible to invest for investment interest.

Interest earnings on loan repayments, however, are currently being explored with the State Treasurer's Office for their approval to invest in the State of California's Surplus Money Investment Fund (SMIF).

| TABLE 1: SOURCES AND USES OF COMMITTED SDWSRF FUNDING AS OF 6/30/01 | | | | |
|--|----------------------|----------------------|----------------------|--------------------|
| SOURCES OF FUNDS | 1998/99 ¹ | 1999/00 ² | 2000/01 ³ | Cumulative |
| Capitalization Grant | 75,682,600 | 77,108,200 | 164,809,800 | 317,600,600 |
| State Match (General Obligation Bonds for SFY 2000/01) | 15,136,520 | 15,421,640 | 32,961,960 | 63,520,120 |
| Additional State Contributions | 0 | 0 | 0 | 0 |
| Investment Interest Earnings | 0 | 0 | 0 | 0 |
| Principle Repayments | 0 | 0 | 167,578 | 167,578 |
| Interest Earnings on Loans | 0 | 0 | 160,293 | 160,293 |
| Bond Proceeds | 0 | 0 | 0 | 0 |
| State of California Budget Act Adjustment ⁴ | -3,990,120 | 967,160 | -60,582,634 | -63,605,594 |
| TOTAL CALIFORNIA APPROPRIATION AUTHORITY | 86,829,000 | 93,497,000 | 137,516,997 | 317,842,997 |
| USES OF COMMITTED FUNDS | 1998/99 ¹ | 1999/00 ² | 2000/01 ³ | |
| SDWSRF LOAN ACCOUNT BINDING COMMITMENTS (F629) | | | | |
| Standard Loans 1452(a) large systems - loan only | 44,869,929 | 58,828,235 | 17,325,776 | 121,023,940 |
| Disad. Communities 1452(d) includes zero interest & grants | 31,628,021 | 14,771,200 | 0 | 46,399,221 |
| Standard Loans Subtotal: | 76,497,950 | 73,599,435 | 17,325,776 | 167,423,161 |
| Small Systems 1452(a)(2) | 0 | 0 | 0 | 0 |
| Standard - loan only | 12,571,796 | 13,822,786 | 4,931,771 | 31,326,353 |
| Disad. Communities 1452(d) includes zero interest & grants | 4,806,032 | 4,663,369 | 3,070,370 | 12,539,771 |
| Small Systems Subtotal: | 17,377,828 | 18,486,155 | 8,002,141 | 43,866,124 |
| Source Water Protection | 0 | 0 | 0 | 0 |
| Committed Loan Subtotal: (includes forgiveness of principle) | 93,875,778 | 92,085,590 | 25,327,917 | 211,289,285 |
| Unclosed Loans ⁵ (amount remaining to obligate) | 0 | 0 | 159,031,084 | 159,031,084 |
| Subtotal: | 93,875,778 | 92,085,590 | 184,359,001 | 370,320,369 |
| SET-ASIDE ACCOUNT WORKPLAN COMMITMENTS | 1998/99 ¹ | 1999/00 ² | 2000/01 ³ | |
| Technical Assistance (max. 2%) 1452(g)(2) (F628) | 1,513,652 | 1,542,164 | 1,616,334 | 4,672,150 |
| State Program Management(max. 10% 1452(g)(2) | | | | |
| Capacity Development (Wtr Sys Reliability Acct F626) | 302,730 | 308,434 | 323,267 | 934,431 |
| Local Assistance Other State Programs (max. 15%) 1452(k) | | | | |
| Source Water Delineation and Assessment (F627) | 7,568,260 | 0 | 0 | 7,568,260 |
| Source Water Land Acquisition Loans (Fund 629) | 0 | 0 | 8,240,490 | 8,240,490 |
| Subtotal: | 9,384,642 | 1,850,598 | 10,180,091 | 21,415,331 |
| SDWSRF ADMINISTRATION ACCOUNT COMMITMENTS | 1998/99 ¹ | 1999/00 ² | 2000/01 ³ | |
| 4% Set-Aside 1452(g)(2) (F625) | 3,027,304 | 3,084,328 | 3,232,668 | 9,344,300 |
| Subtotal: | 3,027,304 | 3,084,328 | 3,232,668 | 9,344,300 |
| TOTAL | 106,287,724 | 97,020,516 | 197,771,760 | 401,080,000 |

¹ FFY 97 ALLOCATION

² FFY 98 ALLOCATION

³ FFY 99 and 00 ALLOCATIONS

⁴ Although total appropriation authority from USEPA and the 20% state match totals \$197,771,760 for the 1999 and 2000 Federal Assistance Awards, the California State Legislature provided appropriation authority in the amount of \$128,948,636 for SFY 2000/01. DHS program staff is working with the Department's Budget Office to effectuate a technical fix and bring state budget authority into alignment with USEPA authority for the reporting period. In addition, budget variances from prior years are being addressed so that cumulative spending authority will balance with all the Assistance Awards received from the USEPA. See Table 3 for details of the variance.

⁵ Unclosed loans are funds for projects that have not yet entered into a binding commitment with the SDWSRF program through the issuance of a Notice of Application Acceptance (NOAA).

TABLE 2: USES OF DISBURSED SDWSRF FUNDING AS OF 6/30/01

| USES OF DISBURSED FUNDS | SFY 98/99 | SFY 99/00 | SFY 00/01 State & Fed. | Cumulative Expenditures |
|--|------------|--------------|---------------------------|----------------------------|
| SDWSRF LOAN ACCOUNT (F629) | | | | |
| Standard Loans 1452(a) | 0.00 | 371,198.23 | 21,559,073.80 | 0.00 |
| Disadvantaged Communities 1452(d) | 0.00 | 0.00 | 25,130,941.86 | 0.00 |
| Standard Loans Subtotal: | 0.00 | 0.00 | 46,690,015.66 | 0.00 |
| Small Systems 1452(a)(2) | | | | |
| Standard | 0.00 | 0.00 | 8,289,714.48 | 0.00 |
| Disadvantaged Communities 1452(d) | 0.00 | 0.00 | 677,468.45 | 0.00 |
| Small Systems Subtotal: | 0.00 | 0.00 | 8,967,182.93 | 0.00 |
| Source Water Protection | 0.00 | 0.00 | 0.00 | 0.00 |
| Total of Subtotals: | 0.00 | 371,198.23 | 55,657,197.59 | 56,028,395.82 |
| SET-ASIDE ACCOUNT | | | | |
| Technical Assistance (max. 2%) 1452(g)(2) (F628) | 30,552.53 | 662,256.61 | 1,480,752.07 | 2,173,561.21 |
| State Program Management (max. 10%) 1452(g)(2) | | | | |
| Capacity Development (Water Sys. Reliability Acct F626) | 4,157.00 | 78,474.05 | 175,590.49 | 258,221.54 |
| Local Assistance Other State Programs (max. 15%) 1452(k) | | | | |
| Source Water Delineation and Assessment (F627) | 157,001.92 | 420,255.38 | 1,517,269.82 | 2,094,527.12 |
| Source Water Protection Loans | 0.00 | 0.00 | 0.00 | 0.00 |
| Subtotal | 191,711.45 | 1,532,184.27 | 3,173,612.38 | 4,526,309.87 |
| SDWSRF ADMINISTRATION ACCOUNT | | | | |
| 4% Set-Aside 1452(g)(2) (F625) | 449,323.57 | 2,539,951.51 | 2,658,977.26 | 5,648,252.34 |
| Subtotal: | 449,323.57 | 2,539,951.51 | 2,658,977.26 | 5,648,252.34 |
| TOTAL | 641,035.02 | 4,072,135.78 | 5,832,589.64 | 10,174,562.21 |

Table 3: Reconciliation of EPA Authority versus State Budget Act Authority

| Description | EPA Authority | CA Budget | 00/01 | Prior 2 Years' | Cumulative |
|--|--------------------|--------------------|-------------------|------------------|-------------------|
| | 99 & 00 Grants | Act Authority | Variance | Variance | Variance 00/01 |
| Administration ¹ | 3,232,668 | 3,360,337 | -127,669 | 57,632 | -70,037 |
| Capacity Development ² | 323,267 | 3,148,000 | -2,824,733 | -2,851,836 | -5,676,569 |
| SWAP ² | 0 | 2,960,000 | -2,960,000 | 1,346,260 | -1,613,740 |
| Small System TA ¹ | 1,616,334 | 1,663,299 | -46,965 | 27,816 | -19,149 |
| Loan Fund (State & Federal) ³ | 184,359,001 | 117,817,000 | 66,542,001 | 4,443,089 | 70,985,090 |
| Source Water Protection Loans ³ | 8,240,490 | In Loan Fund | N/A | N/A | 0 |
| Total Authority⁴ | 197,771,760 | 128,948,636 | 60,582,634 | 3,022,961 | 63,605,595 |

¹ Due to California Budget Act Authority rounding.

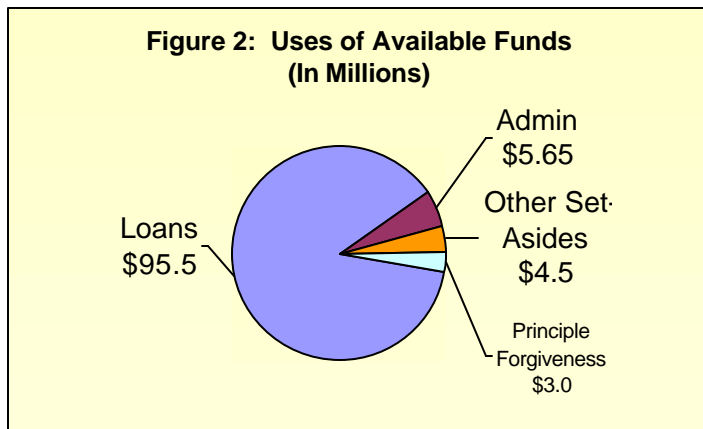
² Program staff is working with the Budget Office to correct this imbalance and return the excess authority to the loan fund.

³ DHS program staff is working with the Department's Budget Office to effectuate a technical fix and bring state budget authority into alignment with USEPA authority for the reporting period. In addition, budget variances from prior years are being addressed so that cumulative spending authority will balance with all the Assistance Awards received from the USEPA.

⁴ State of California Budget Act Authority restricts state spending for SFY 2000/01 to \$128,948,636. This amount is \$60,582,634 less than allowed by USEPA. As addressed in note three above, DHS program staff is working to resolve variances and bring them into alignment with EPA authority.

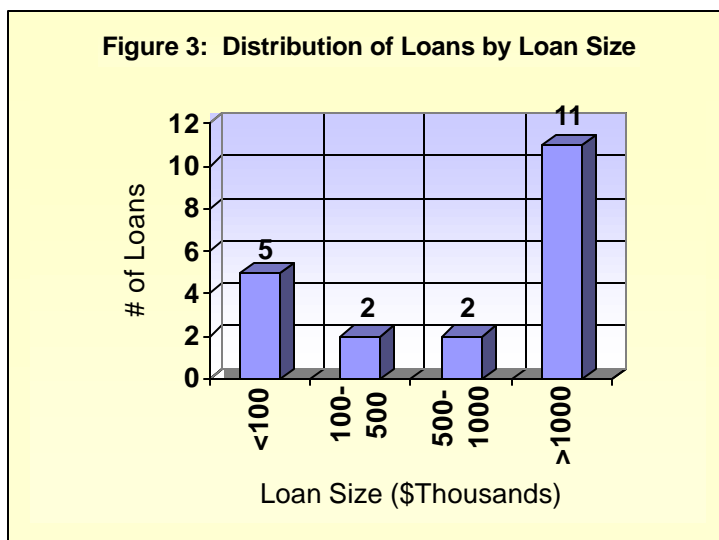
B. Uses of SDWSRF Funds

An amount of \$6,970,804 was provided in prior years for SDWSRF loans. During SFY 2000/01, the SDWSRF program provided \$88,502,222 in new loans, bringing the cumulative total to \$95,473,026 (see Table 4). These are loans to PWSs for infrastructure improvements. In addition, several PWSs were also provided \$3,000,000 in principal forgiveness. Total funded project costs totaled \$98,473,026 (\$95,473,026 + \$3,000,000). During SFY 2000/01, the program also spent \$1,480,752 in set-aside assistance for Small Water System Technical Assistance (\$2,173,561 cumulative), \$175,590 for Capacity Development (\$258,222 cumulative), \$1,517,270 for Source Water Delineation & Assessment (\$2,094,527 cumulative), and \$2,658,977 for Program Administration (\$5,648,252 cumulative). Total set-aside expenditures as of June 30, 2001 total \$10,174,562. Please see figure 2.



Loan Assistance Status

The SDWSRF entered into twenty (20) loan agreements totaling \$95,473,026 as of June 30, 2001 and also provided \$3,000,000 in forgiveness of principal. This brings total project funding to \$98,473,026. This represents twenty-one (21) projects from 18 public water systems. The loans range in size from \$25,000 to \$18,062,849 (See Figure 3). The average loan repayment period is 17.8 years with an average interest rate of 1.82%. The water systems receiving these loans serve approximately 5 million people. Systems receiving SDWSRF loans range in size from 15 to 3.7 million people (See Figure 4). Six of the systems are considered disadvantaged and ten are small water systems. Five systems received a 0% interest loan. Disbursed loan funds as of June 30, 2001 total \$56,028,396 (Table 2). Of this amount, the federal share is \$45,943,285 (82%) and the state share is \$10,085,111 (18%).



☐ Binding Commitments

On a cumulative basis, the SDWSRF Program has obligated (entered into binding commitments) 60% (\$211,289,285/\$352,105,070) of all available loan funds to projects. This utilizes 117%

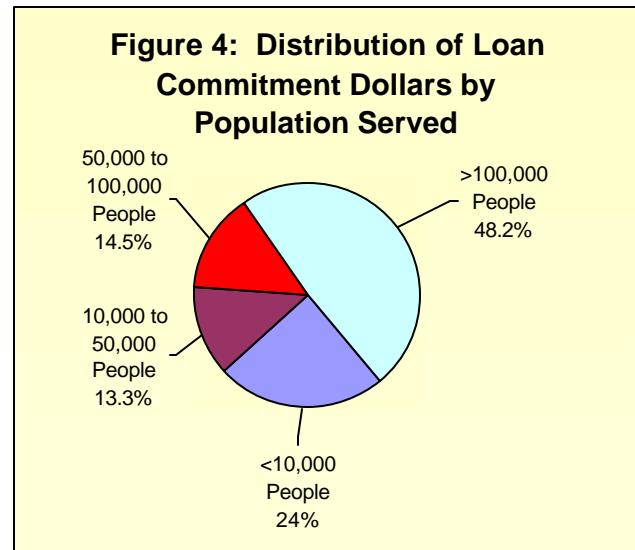
(\$93,875,778/\$78,407,174+\$1,743,980 return to loan fund) of the federal FY 1997 capitalization grant loan funds, 105% (\$92,085,590/\$87,594,915) of the federal FY 1998 capitalization grant loan funds, and 29% (25,327,917/\$87,766,936) of the FFY 1999 capitalization grant loan funds. No funds had been obligated from the FFY 2000 capitalization grant as of June 30, 2001. Table 5 lists the loan commitments from the 1997 through 1999 grants and provides a brief description of each project.

☐ Project Bypass

There were some PWS projects that were bypassed due to either applicant request or non-submittal of required documents. See Appendix F for a report on PWS projects that were bypassed. Applicants that appear on the bypass list continue to be invited again in the next round of invitations.

☐ Small Systems

The SDWSRF Program requires that 15% of the loan fund be committed to small water systems. Small water systems are defined as those that have less than 10,000 service connections. For the four federal grants (FFY 1997 through FFY 2000) received by the Department, commitments have been made against the entire FFY 1997, 1998, and part of the 1999 grants. For the three grants, total commitments average 24%, which is derived from the total amount committed to small water systems of \$50,637,324 divided by the total commitments of \$211,289,285. By year, this is comprised of \$17,377,828/\$93,875,778 or 18.5% of commitments against the FFY 1997 grant, \$25,257,355/\$92,085,590 or 27% of commitments against the FFY 1998 grant, and \$8,002,141/\$25,327,917 or 32% of commitments against the FFY 1999 grant. No commitments were made against the FFY 2000 grant. Of the 65 total projects listed in Table 5, 49 of them are for small water systems.



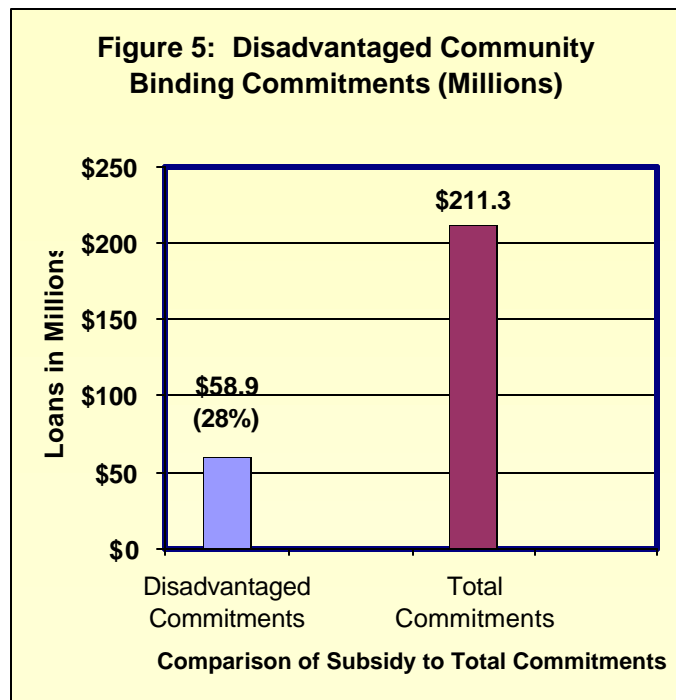
☐ Disadvantaged Community Systems

In accordance with Section 117671.65(b) of the California Health and Safety code, all loans to disadvantaged communities will carry a zero percent interest rate. The offer of additional assistance will be dependent upon the disadvantaged community's ability to repay the loan. Thus, factors such as household income levels, current and projected monthly consumer water charges, and the cost of the proposed project become determining factors.

The determination as to whether a disadvantaged community qualifies for additional financial assistance will not be made until the Department of Water Resources completes its evaluation of

the revenue program, project costs, and other financial information contained in the full project application. Therefore, while a public water system may be able to determine in advance whether or not they qualify as a disadvantaged community, they will not know if additional financial assistance will be provided until the full application process is completed.

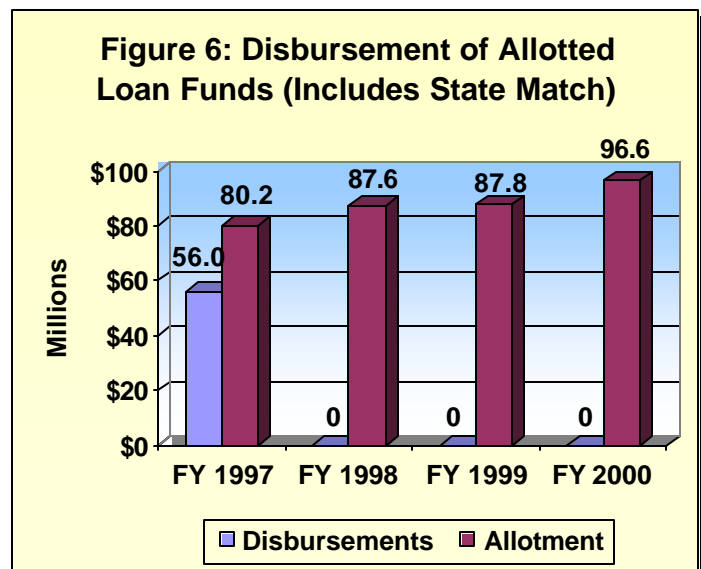
For the four Capitalization Grants received to date, the Department has committed \$58,938,992 to disadvantaged communities, which equates to 28% of all commitments. This is comprised of \$36,434,053 from the FFY 97 Grant, \$19,434,569 from the FFY 98 Grant, and \$3,070,370 from the FFY 99 Grant. No commitments were made against the FFY 2000 Grant. A total of 26 out of 65 total projects qualify as disadvantaged. Of the 26 projects deemed disadvantaged, 10 are receiving a combination of a 0% interest rate (\$16,858,916) and principal forgiveness (\$4,479,315); 10 are receiving just a 0% interest rate (\$33,176,911); and 6 are receiving just principal forgiveness (\$4,423,850). The total principal forgiveness amounts to \$8,903,165 (\$4,479,315+\$4,423,850). According to Section 35.3525(b) of the federal law, DHS may have provided for principal forgiveness up to 30% for each Capitalization Grant. DHS is well within the limit for each year.



❑ Disbursements

As of June 30, 2001, total loan fund disbursements amounted to \$56,028,396 (Figure 6). This is comprised of \$55,657,198 for this reporting period and \$371,198 from the prior period. Appendix C summarizes all disbursements for the California SDWSRF Program. All loan disbursements were from the 1997 Capitalization Grant.

Loan claims are received and reviewed by our contractor, the Department of Water Resources (DWR), for conformity to the loan agreement and forwarded to DHS for approval, processing, and payment.



**FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2001**

**Table 4
1997 Grant**

| Priority Ranking | System Name | Loan Amount | Principal Forgiveness | Project Description | Population Served | Service Connections | Small System | Disadvantaged Community | Executed Contract Date |
|------------------|-------------------------------|--------------|-----------------------|--|-------------------|---------------------|--------------|-------------------------|------------------------|
| C | El Dorado Irrigation District | \$915,293 | No | This project is for lining and covering reservoir #4 with a rigid cover and constructing a bypass | 85,000 | 29,518 | No | No | 5/1/00 |
| C | El Dorado Irrigation District | \$1,171,500 | No | This project is for lining and covering reservoir #3 with a rigid cover and constructing a bypass | 85,000 | 29,518 | No | No | 5/1/00 |
| C | El Dorado Irrigation District | \$1,045,711 | No | This project is for lining and covering reservoir #5 with a rigid cover and constructing a bypass | 85,000 | 29,518 | No | No | 5/1/00 |
| C | El Dorado Irrigation District | \$1,711,000 | No | This project is for lining and covering reservoir #6 with a rigid cover and constructing a bypass | 85,000 | 29,518 | No | No | 5/1/00 |
| B | Solano Irrigation District | \$2,127,300 | No | This project is for construction of a central water treatment plant for all water used in Gibson Canyon Improvement District | 450 | 155 | Yes | No | 2/1/00 |
| D | City of Brawley | \$16,050,000 | No | This project has constructed a new water plant to correct violations | 21,000 | 4,781 | No | Yes | 6/19/01 |

FUNDED PROJECTS (Closed Loans) 1997, 1998 & 1999 CAPITALIZATION GRANTS
As of June 30, 2001

Table 4
97 Grant Continued

| Priority Ranking | System Name | Loan Amount | Principal Forgiveness | Project Description | Population Served | Service Connections | Small System | Disadvantaged Community | Executed Contract Date |
|------------------|--|--------------|-----------------------|---|-------------------|---------------------|--------------|-------------------------|------------------------|
| D | C.C.W.D., West Point | \$0 | 1,000,000 | This project will use the money to assist with a new surface water treatment plant | 1,150 | 543 | Yes | Yes | 6/19/01 |
| D | City of Vallejo – Lakes Water System (Gordon Valley) | \$6,675,000 | No | This project is associated with the construction of a 1.1 million gallon clearwell and storage reservoir | 2,000 | 790 | Yes | No | 7/24/00 |
| D | El Novato Trailer Park | \$92,800 | No | This project will connect mobiles homes to city water | 46 | 46 | Yes | No | 10/3/00 |
| C | Humboldt Bay MWD | \$11,677,030 | No | Phased construction to provide full treatment | 80,000 | 29,348 | No | Yes | 12/19/00 |
| C | L.A. City Department of Water & Power | \$17,751,425 | No | This project provides and underground Bypass pipeline for the lower Hollywood Reservoir, 60 mg. Of covered, filtered water storage in 2 buried tanks, a small-scale microfiltration plant, and a new water trunk line | 3.7 million | 662,783 | N | N | 5/17/01 |
| D | City of Westmorland | \$670,632 | 1,000,000 | This project will construct a new water treatment plant | 1718 | 622 | Yes | Yes | 12/13/00 |

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2001

Table 4
97 Grant Continued

| Priority Ranking | System Name | Loan Amount | Principal Forgiveness | Project Description | Population Served | Service Connections | Small System | Disadvantaged Community | Executed Contract Date |
|------------------------------|------------------------------|---------------------------------|--------------------------------|--|-------------------|---------------------|--------------|-------------------------|------------------------|
| C | Wiest Lake County Campground | \$83,710 | No | This project will construct a 10 gpm surface water treatment plant | 34 | 34 | Yes | No | 5/17/01 |
| TOTAL CLOSED LOANS 97 | | \$59,971,401¹ | \$2,000,000¹ | | | | | | |

¹ Total Funded Projects for the 1997 Capitalization Grant = \$61,971,401 (\$59,971,401 + \$2,000,000)

As of 6/30/01, the number of projects awarded loan contracts/forgiveness of principal from the '97 Capitalization Grant = 13 projects

11 projects were awarded loans totaling \$59,300,769

1 project was awarded a loan of \$670,632 and forgiveness of principal of \$1,000,000

1 project was awarded a forgiveness of principal of \$1,000,000

Number of small water systems funded by the '97 Capitalization Grant = 6 for \$11,649,442

Total population served by the '97 Capitalization Grant is approximately 4.132 million

Number of disadvantaged systems funded by the '97 Capitalization Grant = 4 for \$30,397,662

Average interest rate for the '97 Capitalization Grant = 1.74%

Average repayment period for the '97 Capitalization Grant = 20 years

0% interest loans were given to 3 systems (City of Brawley, Humboldt Bay MWD, and City of Westmorland)

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2001

Table 4
1998 Grant

| Priority Ranking | System Name | Loan Amount | Principal Forgiveness | Project Description | Population Served | Service Connections | Small System | Disadvantaged Community | Executed Contract Date |
|------------------------------|-----------------------------------|---------------------------------|--------------------------------|---|-------------------|---------------------|--------------|-------------------------|------------------------|
| B | Faye Ranch Properties | \$50,000 | No | Replace the well | 25 | 12 | Yes | No | 5/17/01 |
| C | Asoleado MWC | \$61,390 | No | Install an appropriate filtration system | 52 | 35 | Yes | No | 5/7/01 |
| D | Bella Vista WD | \$100,000 | No | Study and pre-design for water treatment plant to meet CT disinfection regulation | 13,500 | 4885 | No | No | 9/22/00 |
| D | City of Anaheim | \$18,062,849 | No | The Plant was closed down and reconstructed in order to comply with the Surface Water Filtration and Disinfection Treatment Regulations | 300,500 | 59,484 | No | No | 6/8/01 |
| E | Sonoma County Water Agency | \$9,952,386 | No | Design and construction of one additional Ranney Collector Well with 20 mgd capacity and connecting pipeline | 500,000 | 156,447 | No | No | 3/15/01 |
| E | City of Crescent City | \$7,000,000 | \$1,000,000 | Installation of additional transmission pipeline and storage tank | 13,831 | 3,749 | No | Yes | 6/26/01 |
| G | Hillview WC-Oakhurst/Sierra Lakes | \$25,000 | No | Planning loan | 2,270 | 908 | Yes | Yes | 11/15/00 |
| TOTAL CLOSED LOANS 98 | | \$35,251,625¹ | \$1,000,000¹ | | | | | | |

¹ Total Funded projects for the 1998 Capitalization Grant = \$36,251,625 (\$35,251,625 + \$1,000,000)

As of 6/30/01, the number of projects awarded loan contracts/forgiveness of principal from the '98 Capitalization Grant = 7 projects

7 projects were awarded loans totaling \$35,251,625

Number of small water systems funded by the '98 Capitalization Grant = 3 for \$136,390

1 of the 7 projects was also given a forgiveness of principal of \$1,000,000

Total population served by the '98 Capitalization Grant is approximately 822,000

Number of disadvantaged systems funded by the '98 Capitalization Grant = 2 for \$8,025,000

Average interest rate for the '98 Capitalization Grant = 1.86%

Average repayment period for the '98 Capitalization Grant = 13.7 years

0% interest loans were given to 2 systems (City of Crescent City and Hillview WC-Oakhurst/Sierra Lakes)

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2001

Table 4
1999 Grant

| Priority Ranking | System Name | Loan Amount | Principal Forgiveness | Project Description | Population Served | Service Connections | Small System | Disadvantaged Community | Executed Contract Date |
|------------------------------|------------------------------|------------------|-----------------------|--|-------------------|---------------------|--------------|-------------------------|------------------------|
| D | Sereno Del Mar Water Company | \$250,000 | No | Construct a new SWT plant and a new water storage source | 300 | 132 | Yes | No | 5/7/01 |
| TOTAL CLOSED LOANS 98 | | \$250,000 | 0 | | | | | | |

As of 6/30/01, the number of projects awarded loan contracts/forgiveness of principal from the '99 Capitalization Grant = 1 project
The project was awarded a loan of \$250,000
Number of small water systems funded by the '99 Capitalization Grant = 1 for \$250,000
Total population served by the '99 Capitalization Grant is approximately 300
Number of disadvantaged systems funded by the '99 Capitalization Grant = 0
Average interest rate for the '99 Capitalization Grant = 2.51%
Average repayment period for the '98 Capitalization Grant = 20 years

| Summary of all Funded Projects from the '97, '98 & '99 Capitalization Grants as of June 30, 2001 | |
|---|----------------------------|
| Total Number of Funded Projects (1 of the 21 was 100% principal forgiveness) | 21 |
| Total Amount of Loans | \$95,473,026 |
| Total Forgiveness of Principal (2 projects combined 0% interest & principal forgiveness; 3 rd principal forgiveness) | 3 projects for \$3,000,000 |
| Total Population Served | 4,954,227 |
| Number of Disadvantaged Systems & Amount Funded | 6 for \$38,422,662 |
| Systems receiving just principal forgiveness | 1 for \$1,000,000 |
| Systems receiving just 0% loans | 3 for \$27,752,030 |
| Systems receiving both principle forgiveness & 0% loans (2 for \$2,000,000 & \$7,670,632 respectively) | 2 for \$9,670,632 |
| Number of Small Water Systems & Amount Funded | 10 for \$12,035,832 |
| Systems receiving 0% Interest (3 with 0% interest and 2 with both 0% interest and principal forgiveness) | 5 |
| Average Interest rate for loan portfolio | 1.82 |
| Average Repayment period for loan portfolio | 17.8 years |

Report on Binding Commitments for the 1997, 1998, 1999, & 2000 CAPITALIZATION GRANTS
As of June 30, 2000 (Includes Executed Contracts)

Table 5
1997 Grant

| Priority Ranking | System Name | Amount Committed | NOAA | Project Description | Population Served | Small System | Disadvantaged Community |
|------------------|--|------------------|---------|--|-------------------|--------------|-------------------------|
| D | City of Brawley | \$19,950,991 | 9/29/99 | The city has approved and undertaken the construction of a new water plant to correct violations. The monies will be used to refinance the plant. | 21,000 | No | Yes |
| D | C.C.W.D., West Point | \$1,000,000 | 9/28/99 | Replace with new surface water treatment plant | 1,150 | Yes | Yes |
| D | City of Vallejo | \$6,675,000 | 9/30/99 | Associated with the construction of a 1.1 million gallon clearwell and storage reservoir. | 2,000 | Yes | No |
| C | El Dorado Irrigation District | \$915,293 | 9/30/99 | This project is for lining and covering reservoir #4 with a rigid cover and constructing a bypass | 85,000 | No | No |
| C | El Dorado Irrigation District | \$1,045,711 | 9/30/99 | This project is for lining and covering reservoir #5 with a rigid cover and constructing a bypass | 85,000 | No | No |
| C | El Dorado Irrigation District | \$1,171,500 | 9/30/99 | This project is for lining and covering reservoir #3 with a rigid cover and constructing a bypass | 85,000 | No | No |
| C | El Dorado irrigation District | \$1,711,000 | 9/30/99 | This project is for lining and covering reservoir #6 with a rigid cover and constructing a bypass | 85,000 | No | No |
| D | El Novato Trailer Park | \$92,800 | 9/28/99 | Connect mobile homes to city water, North Marin Water District. | 75 | Yes | No |
| C | Humboldt Bay MWD | \$11,677,030 | 7/30/99 | Phased construction to provide full treatment | 65,000 | No | Yes |
| C | City of L.A. Department of Water & Power | \$22,275,000 | 9/29/99 | This project is a component from project 01. It is called Unit 4 Hollywood trunk line. | 3,700,000 | No | No |
| C | City of L.A. Department of Water & Power | \$17,751,425 | 9/29/99 | An underground bypass pipeline for the lower Hollywood reservoir, 60 MG of covered, filtered water storage in 2 buried tanks, a small scale microfiltration plant, and a new water trunk line connecting the Hollywood area & lower Stone Canyon Reservoir | 3,700,000 | No | No |

Table 5 (Continued)
1997 Grant

| Priority Ranking | System Name | Amount Committed | NOAA | Project Description | Population Served | Small System | Disadvantaged Community |
|-------------------------------------|--|---------------------|----------|---|-------------------|--------------|-------------------------|
| B | Richardson-Beardsley Inc. | \$92,500 | 9/27/99 | Replace defective piping and tank and drill new well to community standards; install appropriate backflow devices, as needed. | 42 | Yes | No |
| B | San Pasqual Union School | \$100,000 | 9/27/99 | Develop new safe well as primary source. Test well to be drilled first to verify water quality. | 250 | Yes | No |
| C | Santiago County Water District | \$658,000 | 9/28/99 | Well head injection, mixing treatment and removal. | 2,300 | Yes | No |
| B | Sequoia Crest Mutual Water Company | \$159,108 | 9/27/99 | Replace tanks with new 150,000-gallon storage tank. | 200 | Yes | No |
| B | Sierra Mobile Home Park | \$103,400 | 9/28/99 | Install an interconnection to the City of Fresno. | 325 | Yes | Yes |
| C | Solano Irrigation District | \$2,281,300 | 6/3/99 | This project is for construction of a central water treatment plant for all water used in Gibson Canyon improvement District | 450 | Yes | No |
| C | Terra Bella Irrigation District | \$510,000 | 8/13/99 | Extend distribution mains from new SWTP to serve this area. | 3500 | Yes | Yes |
| C | Terra Bella irrigation District | \$1,230,000 | 8/13/99 | Refinancing the existing debt at a lower interest rate. | 3500 | Yes | Yes |
| C | Trabuco Canyon Water District | \$1,946,038 | 9/29/99 | Possible conversion to full surface water treatment rule treatment. | 8550 | Yes | No |
| W | TUD- Rim rock ditch conveyance project | \$282,000 | 9/27/99 | Install a water treatment plant, tank, and water lines to serve the individual ditch customers. | 110 | Yes | Yes |
| B | Voyles Trailer Park | \$10,000 | 9/27/99 | Drill new well. | 40 | Yes | Yes |
| D | City of Westmoreland | \$1,670,632 | 12/22/99 | Construct a 2 million gallon per day water treatment plant and a 700,000-gallon storage tank. | 2300 | Yes | Yes |
| C | Wiest Lake County Campground | \$82,050 | 9/24/99 | Install the system as shown in the included design. | 25 | Yes | No |
| B | Yosemite Spring Park Utility Co. | \$485,000 | 8/16/99 | Drill new wells, install automatic operating and monitoring controls, and make distributions system improvements | 3300 | Yes | No |
| Total 1997 Grant Commitments | | \$93,875,778 | | | | | |

See next page for summaries

| | |
|--|--|
| Number of project commitments from the 97 Capitalization grant as of 6/30/01 | 25 |
| Amount of project commitments from the 97 Capitalization grant as of 6/30/01 | \$93,875,778 |
| Grant amount committed to projects from the 97 Capitalization grant as of 6/30/00 | \$2,628,000 (part of the \$93,875,778) |
| Total population served | 7,854,117 |
| Number of disadvantaged systems | 9 |
| Disadvantaged water system project commitments from the Capitalization grant as of 6/30/01 | \$36,434,053 |
| Number of small water systems | 17 |
| Small water system project commitments from the 97 Capitalization grant as of 6/30/01 | \$17,377,828 (18.5% of commitments) |
| Number of water systems receiving 0% interest rate commitments | 8 |

Table 5 (Continued)
1998 Grant

| Priority Ranking | System Name | Amount Committed | NOAA | Project Description | Population Served | Small System | Disadvantaged Community |
|------------------|--|------------------|---------|---|-------------------|--------------|-------------------------|
| C | Asoleado MWC | \$61,390 | 2/7/00 | Install appropriate filtration system or drill deeper wells | 140 | Yes | No |
| D | Bella Vista Water District | \$100,000 | 2/3/00 | Study and pre-design for water treatment plant to meet CT disinfection regulation. | 12,861 | No | No |
| B | City of Blythe | \$6,771,200 | 9/29/99 | Construct a new water facility including supply wells, filtration, storage reservoirs, and a distribution pipeline loop. | 8,500 | Yes | Yes |
| C | Donner Lake Water Company | \$3,691,324 | 9/28/99 | Replacement of existing tank with a 500,000 gallon tank and addition of a booster facility | 2,800 | Yes | No |
| B | Faye Ranch Properties | \$50,000 | 11/1/99 | Find source and stop access; replace well. Study and design | 25 | Yes | No |
| C | Lake Canyon Mutual Water Company | \$300,000 | 3/3/00 | Site for treatment has been acquired; treatment system has been purchased and design engineering has been completed. They estimate 9 months for the construction of the treatment system. Replacement of aged mains is planned. | 175 | Yes | No |
| B | One Hundred Palms Resort | 483,850 | 2/11/00 | Consolidate with an adjacent public water system, develop a well, and construct a storage tank. | 150 | Yes | Yes |
| C | City of Los Angeles – Dept. of Water & Power | \$16,642,000 | 9/29/99 | 9.7 MGD Microfiltration plant at Hollywood Reservoir | 3,700,000 | No | No |
| C | Grenada WC | \$1,035,000 | 9/29/00 | Construct new deep wells with separation from sewage hazards; construct storage facilities | 250 | Yes | Yes |
| C | River Pines PUD | \$330,000 | 9/29/99 | Drill replacement well close to filtration plant to assure continuous supply of microbiologically safe water, | 500 | Yes | Yes |
| E | Rural North Vacaville Water District | \$9,055,832 | 6/28/00 | Design and construct a water system for the district. | 1500 | Yes | No |
| C | SLO CWWD No. 6 – Santa Margarita | \$500,000 | 6/1/00 | Locate and identify a new groundwater source, purchase right-of-way, design & construct well and new transmission line. | 1200 | Yes | No |
| W | Tinnemaha Campground | \$27,500 | 4/11/00 | Construct a new well, tank, and distribution system. | 400 | Yes | No |

Table 5 (Continued)
1998 Grant

| Priority Ranking | System Name | Amount Committed | NOAA | Project Description | Population Served | Small System | Disadvantaged Community |
|------------------|--|------------------|----------|--|-------------------|--------------|-------------------------|
| B | TUD-Cattle Drive Ditch Conveyance | \$405,150 | 12/22/99 | Construct a water treatment plant, storage tank, and pipelines to serve the individual ditch customers. | 30 | Yes | Yes |
| B | TUD-Expedition Drive Ditch Conveyance | \$36,740 | 3/1/00 | Install water lines to connect the individual ditch customers to TUD's scenic view water system. | 25 | Yes | No |
| W | TUD-Last Chance Water Company | \$100,000 | 3/21/00 | Install a pipeline to interconnect to TUD's upper basin system. | 15 | Yes | Yes |
| B | TUD-Lower Columbia Ditch Conveyance | \$623,300 | 12/22/99 | Install a pump station, tank, and pipelines from TUD's Columbia Water System to serve the individual ditch customers. | 30 | Yes | Yes |
| B | TUD-Railroad ditch conveyance project | \$348,225 | 3/1/00 | Install a water line, pump station, storage tank, and service lines to supply treated water from TUD's Jamestown system to the individual ditch customers. | 80 | Yes | Yes |
| B | TUD-San Diego ditch conveyance project | \$198,700 | 12/22/99 | Install water lines from TUD's Columbia Water System and install a storage tank to serve the individual customers. | 60 | Yes | Yes |
| D | Whitehorn Elementary School | \$114,144 | 1/12/00 | Install new complete filtration | 80 | Yes | Yes |
| G | Hillview WC-Oakhurst/Sierra Lakes | 25,000 | 10/6/00 | Planning loan | 2,170 | Yes | Yes |
| D | Happy Camp C.S.D. | \$1,000,000 | 9/29/00 | Install additional filter to reduce loading rates and water meters at service connections to control demand | 1,100 | Yes | Yes |
| E | Sonoma County Water Agency | \$9,952,386 | 9/28/00 | Design and construct one additional Ranney Collector Well with 20 mgd capacity and connecting pipeline | 500,000 | No | No |
| E | City of Crescent City | \$8,000,000 | 9/28/00 | Installation of additional transmission pipeline and storage tank | 13,831 | No | Yes |
| H | Santa Barbara Water Department | \$14,071,000 | 9/28/00 | Study, design and construct the best alternative to eliminate open distribution reservoir | 93,932 | No | No |
| E | Donner Lake Water Company | \$100,000 | 9/21/00 | Investigate the condition of the existing distribution system & repair or replace as needed | 2,800 | Yes | No |

Table 5 (Continued)
1998 Grant

| Priority Ranking | System Name | Amount Committed | NOAA | Project Description | Population Served | Small System | Disadvantaged Community |
|-------------------------------------|-----------------|---------------------|---------|---|-------------------|--------------|-------------------------|
| D | City of Anaheim | \$18,062,849 | 7/17/00 | The plant was closed down and reconstructed in order to comply with the Surface Water Filtration and Disinfection Treatment Regulations | 292,900 | No | No |
| Total 1998 Grant Commitments | | \$92,085,590 | | | | | |

| | |
|---|--|
| Number of project commitments from the 98 Capitalization grant as of 6/30/01 | 27 |
| Total amount of project commitments from the 98 Capitalization grant as of 6/30/01 | \$92,085,590 |
| Total grant amount committed to projects from the 98 Capitalization grant as of 6/30/01 | \$4,335,165 (Part of the \$92,085,590) |
| Total population served | 4,634,654 |
| Number of disadvantaged systems | 13 |
| Disadvantaged water system project commitments from the Capitalization grant as of 6/30/01 | \$19,434,569 |
| Number of small water systems | 21 |
| Total small water system project commitments from the 98 Capitalization grant as of 6/30/01 | \$25,257,355 (27% of commitments) |
| Number of water systems receiving 0% interest rate commitments | 11 |

Table 5 (Continued)
1999 Grant

| Priority Ranking | System Name | Amount Committed | NOAA | Project Description | Population Served | Small System | Disadvantaged Community |
|-------------------------------------|---|---------------------|----------|--|-------------------|--------------|-------------------------|
| C | San Luis Obispo WC District (Lopez Project) | 300,000 | 4/12/01 | Locate and identify a new well site; then design and construct a new well | 16 | Yes | No |
| D | Ford's Acres Mobile Home | \$187,000 | 6/22/01 | Drill a well to change the system source to groundwater | 25 | Yes | No |
| G | Prunedale Mutual Water Association | \$275,000 | 5/31/01 | Drill a new well and construct a transmission line. Possibly purchase land for the well site | 300 | Yes | No |
| I | East Bay MUD | \$2,188,000 | 5/9/01 | Install an Oxygenation system to reduce TOC levels to comply with ESWTR and Stage 1 DBP Rule | 1,200,000 | No | No |
| I | Contra Costa WD | \$15,137,776 | 5/7/01 | Plant upgrade incorporating intermediate ozone and other improvements | 225,000 | No | No |
| F | Lake Morena Resort | \$30,000 | 4/12/01 | Drill well or consolidate with adjacent system | 45 | Yes | No |
| E | Carrick Water System | \$540,000 | 4/12/01 | Develop new source that is adequately separated from sewage disposal facilities | 150 | Yes | Yes |
| C | Roosevelt Water System | \$400,000 | 2/22/01 | Develop groundwater source including holding tank, new pumps, install larger mains & meters | 200 | Yes | Yes |
| I | City of Angels | \$1,130,370 | 1/30/01 | Install an additional filter | 2,844 | Yes | Yes |
| D | Sereno Del Mar Water Company | \$250,000 | 1/22/01 | Construct a new surface water treatment plant or new storage a groundwater supplemental source | 300 | Yes | No |
| D | Serrano Water District | \$3,621,142 | 1/9/01 | Refinance projects started after 7/1/93 | 7,500 | Yes | No |
| D | Grizzly Flats CSD | \$268,629 | 10/20/00 | Install a second treatment unit; involves refinance | 796 | Yes | No |
| D | TUD (Big Hill) | 1,000,000 | 2/27/01 | Construct a new surface water treatment plant | 700 | Yes | Yes |
| Total 1999 Grant Commitments | | \$25,327,917 | | | | | |

| | |
|---|--|
| Number of project commitments from the 99 Capitalization grant as of 6/30/01 | 13 projects |
| Total cost of project commitments from the 99 Capitalization grant as of 6/30/01 | \$25,327,917 |
| Total grant amount committed to projects from the 99 Capitalization grant as of 6/30/01 | \$1,940,000 (Part of the \$25,327,917) |
| Total population served | 1,437,876 |
| Number of disadvantaged systems | 4 |
| Disadvantaged water system project commitments from the Capitalization grant as of 6/30/01 | \$3,070,370 |
| Number of small water systems | 11 |
| Total small water system project commitments from the 99 Capitalization grant as of 6/30/01 | \$8,002,141(32% of commitments) |
| Number of water systems receiving 0% interest rate commitments | 1 |

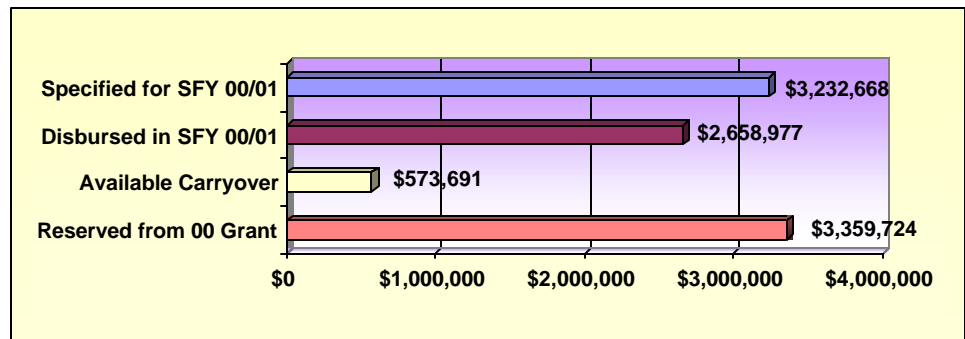
| Summary of all Project Commitments from the '97, '98 & '99 Capitalization Grants as of June 30, 2001 | |
|---|---------------|
| Total Number of Project Commitments (Notice of Application Acceptance) | 65 |
| Total Amount of Project Commitments (Notice of Application Acceptance) | \$211,289,285 |
| Amount of Project Commitments Deemed Forgiveness of Principal | \$8,903,165 |
| Total Population Served | 13,926,647 |
| Number of Disadvantaged Projects: | |
| Those receiving a combination of 0% interest loan and principal forgiveness | 10 |
| Those receiving just a 0% interest loan | 10 |
| Those receiving just principal forgiveness | <u>6</u> |
| Total Disadvantaged Projects: | 26 |
| Total Disadvantaged System project commitments | \$58,938,992 |
| Number of Small Water Systems | 46 |
| Total Small Water System project commitments | \$50,637,324 |

Set-Aside Activity Status

The following pages provide an overview of DHS' set-aside activities for the year ending June 30, 2001. Appendix B includes management reports from Accounting detailing expenditures for the set-asides.

A. Set-Aside: Administration

DHS set aside the entire 4 percent of the 1999 Capitalization Grant allowed for the administration costs of this complex program and also reserved 4% additional set-aside authority from the 2000 Capitalization



Grant for future use. Excess funds available at the end of the SFY 2000/01 will be retained for use in future years to ensure the availability of sufficient funds to administer the program in perpetuity. The state is not currently charging fees to supplement available set-aside funds.

The majority of funds from this set-aside paid salaries and associated expenses of personnel administering the SDWSRF program. Actual expenditures for the Administration set-aside account (Fund 625) totaled \$2,658,977. Year-end-accruals (encumbrances) total \$174,953. The accruals represent amounts obligated for contracts (but not yet billed) entered into during the period, such as the Department of Water Resources and the California State Bureau of Audits. The contract with the Department of Water Resources is to assist DHS in managing the financial aspects of executing SDWSRF loans and the contract with the Bureau of State Audits is to ensure the SDWSRF Program complies with federal laws and regulations applicable to the Capitalization Grants. The following administrative activities have been completed.

☐ Hiring/training of staff

As of June 30, 2001, all positions have been filled in the SDWSRF Program. A total of 26 administrative positions are authorized, which equate to 23 FTE positions. Staff attends periodic SDWSRF training workshops to stay current on policies & procedures.

☐ Purchase of computer hardware and software

Purchases were completed in the first year's grant.

☐ Development of program documents

Extensive program documents have been developed for all set-aside programs. Many of these documents can be found and are available for downloading at the SDWSRF website address located at <http://www.dhs.ca.gov/ps/ddwem/srf/srfindex.htm>. Documents specific to administration include:

- Policy & Procedures Manual
- Project Priority List
- Intended Use Plan
- Pre-application Package
- Full Application Package.

☐ Changes in program procedures

1. Administration Unit – The procedures to be followed by the SDWSRF staff in the processing of applications are contained in the Policy and Procedures Manual that was revised on April 24, 2001.
2. Technical Support Unit – There has been no change in procedures.
3. Environmental Review Unit – No major changes were made with regards to the environmental review process; however, the process has been refined and given more detail as follows:
 - Environmental information requirements for SDWSRF applications as contained in the “Application Completeness Checklist”
 - Detailed environmental review procedures as contained in the “SDWSRF Policy and Procedures Manual” and “Environmental Review Unit Desk Manual”
 - Findings, Reports, Worksheets, and Checklists as contained in the “Environmental Review Unit Desk Manual”
 - New Environmental Review Unit Flowchart
 - Environmental Database enhancements
4. Fiscal Unit – There have been some minor changes. It was initially envisioned that DWR, which is under contract with DHS through an Interagency Agreement, would perform computations on loans for invoice preparation and bill the water systems. DWR will now perform the computations for invoice preparation only and DHS Accounting will input this into its automated accounts receivable system. On May 15th and November 15th of each year DWR will hand deliver to DHS Accounting the final

computations for the 6-month billing period. May 15th will consist of disbursements from November 1st through April 30th. The November invoicing will consist of disbursements from May 1st through October 30th. Separate invoices are then prepared by DHS for interest and principal billing. After inputting, a screen print of the invoice will be printed and three copies will be made for distribution. The original will be mailed to the water entity, a copy to DWR, an accounting file copy and a copy for SDWSRF program personnel.

When payment is received, cashiering in DHS will deposit the payment and give a copy to the SDWSRF accounting team with the posting date. The payment will be posted to CALSTARS (the Department's accounting system), which will update the payment status of the automated Accounts Receivable System.

Payments received are logged into a spreadsheet, which will have a running balance. Payments not received by the due date will generate a 30, 60, 90 day etc. delinquent letter to be mailed to the entity. DWR will receive a copy of the delinquent letter(s) and will assess appropriate penalties and/or collection procedures.

5. Small Water System Unit – There have been changes. References to these changes can be found in the narrative for the Capacity Development and Small Water System Technical Assistance set-asides.

☐ Solicitation of Applications (Preapplications)

During SFY 2000/01, the seventh round of invitations was sent out. Invitees included projects in categories B through J (there were no projects in category A) and those in category L with 30 or more bonus points. Application invitations were sent to almost 700 water systems in May of 2001. These invitations resulted in 175 systems submitting positive statements of interest and were sent complete application information. Earlier invitees were also given a cutoff date for submitting their application from prior rounds.

☐ Update of comprehensive list of projects (PPL)

The PPL is updated on an annual basis. The PPL for SFY 2000/01 was comprised of approximately 3,600 projects that were submitted by approximately 1650 water systems. Approximately 60 of these preapplications relate to source water protection projects. Application invitations were sent to almost 700 water systems in May of 2001. Approximately 175 systems responded positively and were sent complete application information.

The annual open preapplication period was announced to all PWSs in the state in June 2000. During the submission period, which closed in August of 2000, approximately 200 preapplications were received. These were ranked by field offices and incorporated into the PPL presented for public hearing in January 2001. Information concerning the open preapplication period, including the preapplication form and related material, was also posted on the SDWSRF Internet web site to increase the availability of this information.

Ranking criteria for SDWSRF projects were updated by modifying category E to include systems with significant source water quantity problems which have been managed so they have not caused severe water outages. This change was made to fund projects which will address imminent water outages.

The Department continues to work on its new database, which is under development. The database, known as the Management, Accounting, and Reporting Systems (MARS), will integrate the PPL when completed.

☐ Public Participation

The Source Water Assessment and Protection Policy Advisory Committee and Technical Advisory Committee met in October 2000 to receive updates on SWAP activities and to provide input on the future course of these activities.

The SWS Technical Assistance and Capacity Development team held a series of four hearings during July and August of 2000 to receive public input on the draft capacity development strategy.

Each spring and summer, SDWSRF representatives participate in a series of 6 multi-agency funding fairs held throughout the state. These forums provided information on a variety of funding programs for infrastructure improvements. Participants included the United States Department of Agriculture Rural Utilities Service, the State Water Resources Control Board, the Department of Housing and Community Development, and DHS. Drawing a wide variety of representatives seeking funding of public projects, these workshops, organized by the California Finance Coordinating Committee, provided public water systems and others with valuable information on the SDWSRF and other funding mechanisms.

DHS representatives also have opportunities to receive input from the water community when making presentations and participating on professional committees at meetings of groups, such as the Groundwater Resources Association, the California Environmental Health Association, the Association of California Water Agencies, and the CALFED Bay-Delta project.

☐ Evaluation of PWSs for technical, financial, and managerial capacity (TMF).

USEPA granted approval of DHS' TMF Capacity Development Workplan on July 1, 1999 and approval of its Capacity Development Strategy on September 8, 2000.

For the time period from July 1, 2000 to June 30, 2001 there were a total of 307 water supply permit actions by DHS and LPAs reported in the DHS data tracking system. This includes 121 amended permits and 157 other permit actions. The majority of these permit actions did not trigger an evaluation of the TMF Capacity of the water system, which is limited to new systems and systems changing ownership, pursuant to state law found in Health and Safety Code Section 116540 (a).

There were a total of 43 evaluations of TMF Capacity that were performed statewide during this time period, and of that amount, 32 were for TMF evaluations for SDWSRF Projects, and 11 were for new Transient Non-Community Systems. Therefore, the total number of water systems that fall within the federal guidelines for TMF Capacity evaluations is 18 (all new Community Water Systems and all new Non-Transient Non-Community Water Systems).

During this time period, there were cases in which potential new PWSs chose to connect to an existing PWS to avoid the expense and requirements (especially the TMF requirements) of becoming a new PWS. There is no data tracking for these cases, at this point, but a reasonable estimate of such cases statewide during this time period is at least 5.

☐ Development of the IUP.

DHS prepared IUPs for both the FFY 1999 and FFY 2000 Capitalization Grants. The IUPs set forth DHS' goals and priorities. A PPL was established that ranked PWSs into categories based on public health issues, compliance with the SDWA, and per household affordability. The PPL is a component of the IUP. Projects that rank high on the PPL are the first to be offered loans based on available funding.

☐ Conduct public hearings for PPLs and IUPs

In December 2000 a notice was sent to all public water systems in California and other interested parties announcing the availability of the draft IUP and the 2001 PPLs (SDWSRF and SWP); A public hearing was held January 31, 2001. The notice and related documents were also posted through the Department's Internet website to maximize public availability.

☐ Creation/meeting of stakeholder committees

The SDWSRF program has stakeholder committees in each of the set-aside programs. The SRF Interest Group is comprised of water utility associations, PWSs, nonprofit groups, water utility consultants, funding agencies and others. The Small Systems Interagency Outreach Committee is a stakeholder group that assists with input and coordination of training.

☐ Preparation of capitalization grant application

The 1999 federal Capitalization Grant was prepared by DHS staff and awarded by USEPA in August 2000. The 2000 federal Capitalization Grant was prepared by DHS staff during the same fiscal year to catch up with available funding. This grant was awarded by USEPA in December of 2000.

☐ Development of Accounting Management Reports

Appendix B details the accounting management reports that will be used to track expenses to the SDWSRF Program.

☐ Completion of SDWSRF program audits

The SDWSRF Program has a contract with the California State Auditor (Bureau of State Audits) to conduct a yearly audit. The first audit included the 1997 Capitalization Grant (SFY 1998/99) and was completed in April 2000. The second audit included both the 1997 & 1998 Capitalization Grants (SFY 1999/00) and was completed in November 2000. The most recent audit for SFY 2000/01 included the FFY 1997-2000 grants and was completed in December 2001. An unqualified opinion was issued, as it was for the prior audits. Minor audit findings were noted on maintaining accurate records for loan disbursements, the reporting of a liability in the financial statements and overpayment to a loan recipient, all of which have subsequently been corrected. The Department will continue to review financial statements by utilizing the State Controllers Office checklist to assure accuracy, and will consider generally accepted accounting principals adjustments as they relate to the fund in the review process. Further, the Department will identify loans disbursed after the May interest-billing date to make sure that interest is properly accrued for these loans. Finally, department staff will attend training to ensure that loan activity is accounted for in accordance with the CALSTARS Procedures Manual. See Appendix D for a copy of the audit report.

☐ Regulations

The authority to implement regulations was based on enabling legislation for the SDWSRF program. This was accomplished with the passage of Senate Bill 1307 (Chapter 734-Statutes of 1997) signed by the Governor on October 6, 1997. Emergency regulations were adopted on March 23, 1999 and became final on August 18, 1999.

In June of 2000 the draft regulations to amend the SDWSRF Program to specifically address the administration of the Source Water Protection Loan Program were submitted to the Office of Regulations. The public comment period on the Source Water Protection Projects/Consolidation regulations began June 29, 2001; it was scheduled to conclude on August 13, 2001.

The proposed regulations to support implementation of the Source Water Protection Loan Program were expanded to include a number of changes to facilitate funding projects to consolidate two or more water systems.

Posting to the Department's Internet web site is the primary mechanism for circulation of the proposed regulations. These regulations establish the regulatory procedure for issuance of Source Water Protection Project loans, and remove impediments to funding consolidation projects.

☐ Land Acquisition for Source Water Protection

Funding for this program will provide loans to PWSs for the purchase of land or conservation easements. A PWS may only purchase land or a conservation easement from a willing party.

The purchase must be for the purposes of protecting the system's source water and ensuring compliance with national drinking water regulations. DHS evaluates all projects using the priority system described in DHS' IUP.

As part of the overall SWAP strategy, low interest SWP loans will be offered to PWSs beginning in SFY 2001/02 for source water protection. The Department intends to use an \$8,240,490 (\$4,040,835 FFY 1999 Grant & \$4,199,655 FFY 2000 Grant) set-aside from the 2000/01 state fiscal year SDWSRF funds towards funding projects on the SWP priority list. The SWP loans will be treated as a sub-account within the SDWSRF loan fund. This funding is part of the SDWSRF loan fund and will be tracked separately by its own cost accounting code. This amount reduces the funding available to the SDWSRF infrastructure improvement projects accordingly.

☐ Delegation authority for Compliance with federal regulations and authorities

Federal Endangered Species Act: July 2, 1999 Letter from U.S. Environmental Protection Agency to U.S. Fish and Wildlife Service Designating them (U.S. Fish and Wildlife Service) as Non-Federal Representative for Compliance with Section 7 of the Act.

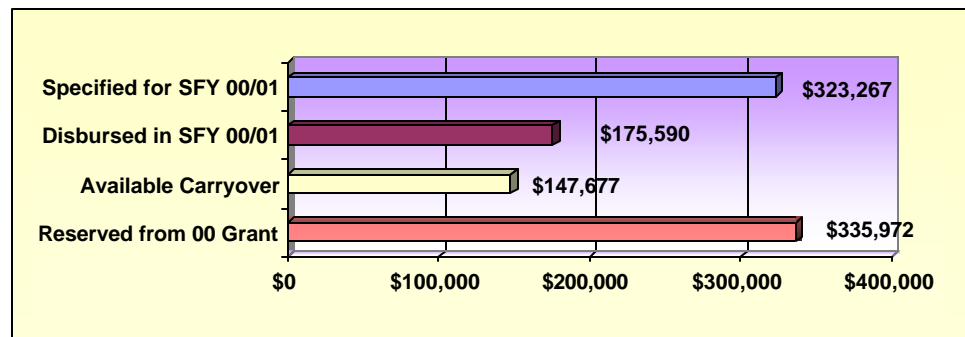
National Historic Preservation Act: March 1990 "Programmatic Agreement on Historic Preservation for the State Revolving Fund" stipulating the responsibilities of USEPA and State Revolving Fund agencies (including DHS).

☐ Environmental review process

During SFY 2000/01, the Environmental Review Unit established detailed procedures for documenting the environmental review process and incorporating environmental findings and conditions into the process of SDWSRF project approvals. Specific memo and report formats were developed to enhance communication between the ERU and other units in SDWSRF program. Specific environmental information requirements were established for determining the completeness of SDWSRF applications. The "NEPA-like" requirements for consultation with federal authorities have been refined and documented by using detailed checklists. The unit has also prepared a desk manual and flowchart to document its environmental review process. The Unit still maintains its own environmental review database, which has been updated and improved to reflect changes in the process and increase the types of reports that can be generated.

B. Set-Aside: Capacity Development

Capacity Development is related to the increasing of the ability of a system to meet the operational and



regulatory requirements to maintain a public water system in continued compliance with the SDWA. DHS set aside .4% of the FFY 1999 Capitalization Grant in order to address these regulatory requirements and reserved .4% from the FFY 2000 Capitalization Grant for future use.

Capacity Development Strategy is a method to identify PWSs most in need of TMF improvement and factors that encourage or impair capacity development and incorporates a plan to improve SWS compliance with the SDWA.

The law also requires a state to describe how it will assist PWSs to meet primary drinking water regulations, how it will encourage partnerships and assist in the training and certification of operators. A state must establish a baseline to measure improvements and identify persons interested in implementing the capacity development strategy.

Actual expenditures for the Capacity Development set-aside (Fund 626) for SFY 2000/01 total \$175,590. Year-end accruals (obligations) total \$20,061. The accruals represent amounts obligated but not yet billed.

A contract with Rural Community Assistance Corporation (RCAC) was entered into on June 1, 2000, and that contract was increased from \$65,000 to \$119,000 for the state fiscal year July 1, 2000 to June 30, 2001. The purpose of this contract is to provide assistance to DHS in developing the Technical, Managerial and Financial (TMF) capacity of small water systems, which are pursuing funding through the SDWSRF program, or public water systems which have problems maintaining compliance with the Safe Drinking Water Act. This will be done through a series of trainings developed with input from DHS and industry. During the period from July 1, 2000 through June 30, 2001, no trainings were done; however, the training modules were developed for all 16 of the TMF elements identified by DHS in their criteria. In addition, RCAC worked with DHS to hold three public meetings to discuss the strategy. Expenditures as of June 30, 2001 were \$72,332.

☐ Overview and Workplan

DHS has developed, and is now implementing, a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. DHS has (1) defined program goals and objectives, (2) defined a set of steps to be taken to achieve each objective, (3) defined an overall program implementation plan, and (4) defined a program evaluation and improvement plan which describes how the state will establish a baseline and measure improvement in capacity. DHS will continue to solicit input from the State's technical advisory committee, and other interested stakeholders.

Funds were used to (1) complete the development of a capacity development strategy, (2) develop policies and procedures for implementing capacity requirements, and (3) continue to develop a capacity development data base system to track the results of the strategy and its implementation.

☐ Program Documents

The TMF Capacity Development Program has developed the following program documents used to guide staff towards consistent implementation of the program:

Documents for Community Water Systems

Assessment Forms:

- ☐ TMF Assessment Form for Community Water System for SDWSRF Applicants (Rev. 6/19/2001)
- ☐ TMF Assessment Form for New Community Water Systems (Rev. 6/19/2001)
- ☐ TMF Assessment Form for Change of Ownership for Community Water Systems (Rev. 1/07/2002)

Staff Evaluation Forms:

- ☐ Staff TMF Evaluation Form for SDWSRF Community Water System (Rev. 5/2/2001)
- ☐ Staff TMF Evaluation Form for New Community Water Systems (Rev. 4/17/2001)
- ☐ Staff TMF Evaluation Form for Change of Ownership of Community Water Systems (Rev. 4/17/2001)

Checklists:

- ☐ SDWSRF Community Water System Checklist (Rev. 5/2001)
- ☐ New Community Water System Checklist (Rev. 5/2001)
- ☐ Change of Ownership Community Water System Checklist (Rev. 5/2001)

Criteria:

- ☐ TMF Capacity Criteria for SDWSRF Community Water Systems (Rev. 6/19/2001)
- ☐ TMF Capacity Criteria for New Community Water Systems (Rev. 6/19/2001)
- ☐ TMF Capacity Criteria for Change of Ownership of Community Water Systems (Rev. 6/19/2001)

Documents for Non-Community Water Systems

Assessment Forms:

- ☐ TMF Assessment Form for Noncommunity Water System for SDWSRF Applicants (Rev. 6/19/2001)
- ☐ TMF Assessment Form for New Noncommunity Water Systems (Rev. 6/19/2001)

- ❑ TMF Assessment Form for Change of Ownership for Noncommunity Water Systems (Rev. 6/19/2001)

Staff Evaluation Forms:

- ❑ Staff TMF Evaluation Form for SDWSRF Noncommunity Water System (Rev.5/3/2001)
- ❑ Staff TMF Evaluation Form for New Noncommunity Water Systems (Rev. 5/2/2001)
- ❑ Staff TMF Evaluation Form for Change of Ownership of Noncommunity Water Systems (Rev. 5/2/2001)

Checklists:

- ❑ SDWSRF Noncommunity Water System Checklist (Rev. 5/2001)
- ❑ New Noncommunity Water System Checklist (Rev. 5/2001)
- ❑ Change of Ownership Noncommunity Water System Checklist (Rev. 5/2001)

Criteria:

- ❑ TMF Capacity Criteria for SDWSRF Noncommunity Water Systems (Rev. 6/19/2001)
- ❑ TMF Capacity Criteria for New Noncommunity Water Systems (Rev. 6/19/2001)
- ❑ TMF Capacity Criteria for Change of Ownership of Noncommunity Water Systems (Rev. 6/19/2001)

❑ Program Procedures

DHS has developed a set of performance criteria to determine whether a system has adequate TMF capacity. DHS intends to further revise the criteria as necessary based on input received from staff experience using these criteria.

DHS continues to develop policies and procedures for implementing capacity requirements. DHS has developed TMF capacity self-assessment forms and staff evaluation forms to be used to assess and document a water system's TMF capacity. Field use of the forms and procedures continues. DHS continues to revise the forms and procedures based on input received from field use by staff.

All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised prior to September 1, 1999 and implemented by October 1, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs. The program procedures have been established and are documented in DHS' revised Permit Policy and Procedures Manual. The TMF Capacity Training Manual dated September 1998 contains a description of the program procedures to be followed by District and LPA staff.

DHS will develop a TMF capacity tracking database. This data base will enable the State to (1) track information on the TMF capacity status of PWSs, (2) identify and track areas where water systems need to develop capacity, and (3) identify and track areas where water systems need technical assistance. This will be incorporated into ongoing revisions to the water system database program.

☐ Performance Status Report

USEPA granted approval of DHS' 2000-2001 TMF capacity development workplan on June 26, 2000.

The staff of DHS focused efforts on the following areas related to these set-aside programs:

- The development of the State of California's TMF Capacity Criteria.

Effective January 1, 1998, State of California Law required that TMF Capacity requirements be met by all new PWSs as well as water systems which are undergoing a change of ownership. This requirement necessitated that DHS establish the TMF criteria and begin utilizing these criteria in the approval process for these water systems.

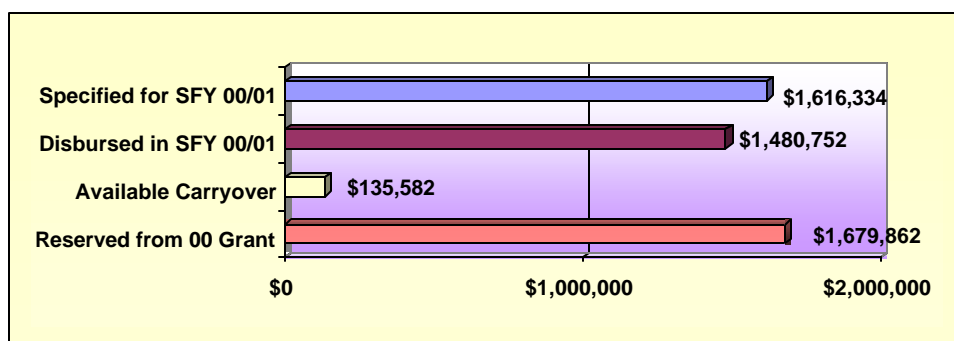
The TMF criteria were developed by a Capacity Development Work Team comprised of members of State and County regulatory personnel that meet 3-4 times per year.

- Development of the TMF Capacity Development Strategy. A major effort of the Work team was directed towards developing an overall, comprehensive strategy to effectively utilize the Set-Aside programs. This strategy was finalized and transmitted to EPA in August 2000.
- Staff Training: The TMF Capacity Trainings focus on the requirements for systems pursuing funding under the SDWSRF Program. DHS continues to provide TMF Training at annual DHS & LPA trainings. Along with third party trainings, which include "train the trainer" sessions, DHS & LPA staff can participate in TMF training for systems.

C. Set-Aside: Small Systems Technical Assistance

☐ Overview and Workplan

The majority of California's more than 8,200 public water systems fall into the SWS category (7,100 small water systems) and DHS is utilizing the entire portion of the FFY 1999



Capitalization Grant allowed for this activity (2%). DHS is also reserving the full 2% from the FFY 2000 Capitalization Grant for future use. The funds are used to provide additional in-house technical staff and to contract with outside contractors to provide technical services to small systems. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the systems; and (4) establishing or improving the technical, managerial and financial capability of the systems. This program is directed at those systems serving a population of 10,000 or less, with much of the emphasis given to community water systems serving less than 200 service connections.

DHS is in the process of developing the State's overall small water system technical assistance program. DHS is developing procedures for providing technical assistance to small water systems through use of DHS staff, LPA staff and third party contractors. As a part of this process, DHS developed a staff technical assistance manual that includes procedures for providing technical assistance, descriptions of available third party assistance, and guidance document handouts. DHS conducted a two-day training workshop for technical assistance third party contractors in January 2002.

Funds were used to (1) continue the development of the state's overall small water system technical assistance program and (2) provide direct assistance to small water systems to enable them to qualify and obtain SDWSRF funding. This assistance includes:

- Assistance in preparation of the SDWSRF application, including submittal of required environmental documentation, preliminary engineering report(s), and compliance with federal crosscutting authorities.
- Assistance in demonstrating required TMF capacity, including submittal of required capacity documentation and development of source capacity assessments, technical evaluations, operations plans, emergency plans and budget projections.

A contract was entered into in June of 2000 with the California Rural Water Association (CRWA) in the amount of \$62,000 to assist DHS with technical assistance to small public water systems that are pursuing SDWSRF funding or have been identified by DHS as having significant problems which the water system may more readily resolve with third party support. In the second year of the contract with CRWA, the amount of the contract increased from \$62,000 to \$185,000.00. CRWA's two circuit riders worked with DHS staff to provide technical assistance to small public water systems which are pursuing funding through the SDWSRF Fund, and systems identified as having significant problems complying with the minimum water supply requirements or having other significant program problems as determined by DHS. The circuit riders worked directly with the water systems and DHS District Offices. During the period between July 1, 2000 and June 30, 2001, CRWA assisted 76 water systems.

Actual expenditures for the Small Water Systems Technical Assistance (Fund 628) set-aside total \$1,480,752. Year-end accruals (encumbrances) total \$34,763. The accruals represent amounts

obligated for contracts (but not yet billed) entered into during the period. The contract DHS has with CRWA represents the accrual.

☐ Program Documents and Procedures

DHS has just completed the process of preparing staff guidance and implementation documents for this program. These documents will define the role of DHS and LPA staff as well as third party contractors. The Capacity Development Strategy dated September 2000 describes how the Technical Assistance Program fits into the TMF Capacity Development Program. Currently, targeted Technical Assistance is provided by DHS staff and third party contractors to systems which may be pursuing SDWSRF funding.

☐ Performance Status Report

During this time period, DHS focused on developing a program designed to use both DHS staff and Third Party Contractors to provide effective technical assistance to SWSs utilizing the SDWSRF set-aside funds. This effort focused on the following areas during this period:

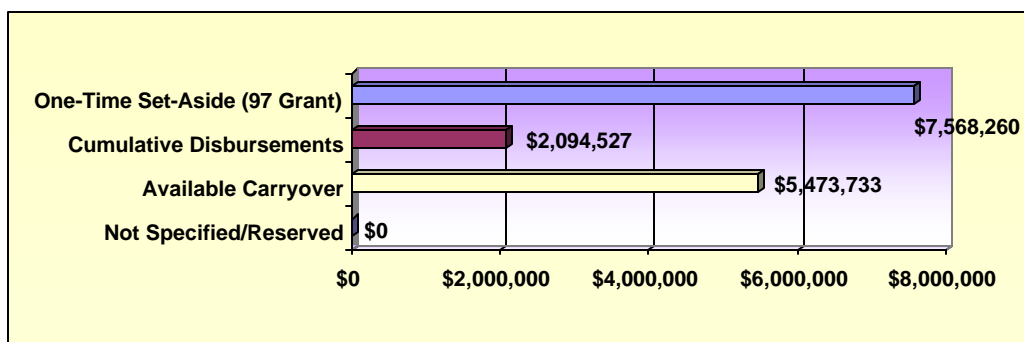
- Continued work of the Capacity Development Work Team which consists of staff of DHS and Local Primacy Agencies. The primary focus of this Work Team has been the development of the Capacity Development Strategy. However, related to this, the Work Team also worked on evaluating and prioritizing Technical Assistance needs for both Capacity Development and general compliance issues.
- Implementation of the Capacity Development Strategy as a basis for evaluating and prioritizing Technical Assistance needs for SWSs.
- Identifying and evaluating available Technical Assistance resources. The Work Team developed lists of available resources and the possible roles of these resources in the Technical Assistance Program.
- As part of our contract with RCAC, they have compiled and categorized (sorted by TMF elements) a list of available resources on a compact disc (CD). The CD is currently being revised and will be distributed at the RCAC/DHS trainings.

D. Set-Aside: Source Water Assessment Program (SWAP)

☐ Overview

The funding for this program is being used to develop and implement a SWAP program to delineate the boundaries of protection areas for drinking water sources, and identify possible

contaminating activities within the delineated areas in order to assess the vulnerability of the water sources to contamination. In California, the SWAP is incorporated into the DWSAP Program. USEPA endorsed Department's DWSAP Program on April 26, 1999 and formal approval was given on November 5, 1999.



The Department is working towards completing all assessments by the deadline of May 2003.

Contracts began in June 1999 with 33 local primacy agencies (LPAs) for complete drinking water source assessments for all active public drinking water sources used by PWSs under the regulatory jurisdiction of the LPA. The term of the contracts are June 1, 1999 through December 31, 2002 and total \$1,953,900. One county didn't execute a contract until July 1, 2000. LPA DWSAP expenses in SFY 2000/01 were \$169,998.

The Department has contracted with UC Davis-Information Center for the Environment (UCD-ICE) to develop geographic information system applications and decision support system tools in order to assist in identifying different source water threats. In 2000/01 payments to UCD-ICE for this contract were \$0 due to non-submittal of invoices to DHS. The Department executed a contract amendment with UCD-ICE in April 2001 for \$152,352, bringing the total contract amount to \$651,634 and extending the contract completion date to June 30, 2002.

Low interest loans will be offered to PWSs beginning in SFY 2001/02 for source water protection. The budget for the first year will be \$8,240,490. It will be structured as a sub-account of the SDWSRF loan fund.

The Department encountered delays in implementation of the DWSAP program. The contract for data tools with UCD-ICE was not executed until August 1999, a delay of approximately 5 months. Therefore, release of DWSAP tools for mapping and electronic forms was delayed until the 2000/01 fiscal year. In addition, a significant amount of Department and LPA county efforts have been allocated to obtaining accurate source locations as required by EPA. This activity has further delayed progress on DWSAP work.

In 2000/01, assessments were completed for 681 sources. The total assessments completed through June 30, 2001 are 792 (5%). Of these, 371 assessments have been done by the Department's district offices, 303 by LPA counties, and 118 by water systems and other entities.

The Department has made data tools available to public water systems and others interested in doing source water assessments. As of June 30, 2001, The Department distributed the "TurboSWAP" program to 36 entities representing over 431 water systems with more than 1,000 sources. Water systems that conduct their own assessments must complete them by December 31, 2002.

LPA counties are responsible for conducting assessments of 6,199 sources or 39% of the total workload. LPAs are required to complete their assessments by December 31, 2002.

Actual expenditures for the SWAP set-aside account (Fund 627) total \$1,517,270 for the past fiscal year and cumulatively amount to \$2,094,527. Outstanding encumbrances total \$665,369.

☐ Work Plan

USEPA approved a revised work plan for SWAP on June 28, 2001. The revised schedule for assessments is shown below, along with progress to date.

| DWSAP Assessment Schedule | | | | |
|----------------------------------|----------------------|----------------------|----------------------|---------------------|
| # Sources | 1/1/00 to 6/30/00 | 7/1/00 to 6/30/01 | 7/1/01 to 6/30/02 | 7/1/02 to 5/6/03 |
| 15,963 | 122 | 575 | 8,000 | 7,266 |
| | <1% | 3.5% | 50% | 45.5% |
| Completed | 122 | 681 | | |

During SFY 2000/01 the following activities identified in the Work Plan have been undertaken or completed:

Workplan Tasks for State Fiscal Year 2000/01

Assessment Implementation

1. Administered contracts with 33 Local Primacy Agency (LPA) counties for SWAP assessments.
2. With the assistance of UCD-ICE, released and improved electronic tools for source water assessments: electronic forms ("TurboSWAP"), GPS data dictionary software, and a mapping tool.
3. With UCD-ICE, visited each LPA office to install GPS software and provide personalized training and program support.
4. Put on training for staff of the Department and LPA counties on the use of TurboSWAP and the Mapping Tool.
5. Provided program updates and instructions to staff at Department management and regional staff meetings.

6. Developed detailed guidance for staff on implementation issues.
7. Continued data collection for source water assessments.
8. Acquired required hardware for Department (computers, network servers, etc.) for use with electronic tools.
9. Developed data collection system to keep track of assessments.
10. Met with California Rural Water Association on a regular basis to share information and update on progress.
11. Participated in assessments for large water sources including the State Water Project and the Colorado River.

Public Participation

1. Made presentations to LPA, DHS, local, and professional organizations regarding implementation and progress on the program.
2. Held two meetings of the Technical and Policy Advisory Committee.
3. Updated the Department's website for the program with useful information.

Reporting

1. Developed format and procedures for reporting progress on assessments.
2. Prepared regular updates on program for management and staff.
3. Prepared annual and other reports as needed for US EPA.

Source Water Protection Loan Program

1. Developed and prepared to adopt state regulations for a source water protection loan program.
2. Invited a second round of pre-applications from public water systems.
3. Updated the project priority list.
4. Distributed the project application form and guidelines.

☐ Performance Status Report

The Department accomplished the following for the California DWSAP Program in 2000/01:

Assessment Implementation

1. Administered contracts with 33 LPA counties.
2. Data work done by UC Davis:
 - a. Release and upgrades of TurboSWAP software application
 - b. Release and upgrades of Mapping Tool GIS application
 - c. Processing of GPS and TurboSWAP data
 - d. Training class for DHS and LPA staff (three sessions held in March 2001)
3. Distributed three issues of an update (newsletter) for staff with timely tips, hints, reminders and guidance.
4. Developed guidance for completing assessments and posted guidance and forms on Department's website.

- Completed assessments for 681 sources, as detailed in the table below.

| System Type | # Source Assessments Completed SFY- 2000/2001 |
|--|--|
| Community Water Systems | 514 |
| Non-Transient NonCommunity Water Systems | 83 |
| Transient NonCommunity Water Systems | 84 |
| Total | 681 |

Public Participation

- Made five presentations to LPA, DHS, local, and professional organizations.
- Held two meetings of the Policy and Technical Advisory Committee to provide an update members on the DWSAP program.

Reporting

- Submitted required reports to USEPA for progress on the program.

Source Water Protection Loan Program

- The Department received 4 additional eligible preapplications from 4 different water systems/companies for a total of \$2.525 million dollars. The project priority list was updated. Two projects were moved from the SRF priority list to the SWP priority list. A summary of the priority list is shown below.

| Category | Contaminant Addressed | Ground Water/ Surface Water | Zone | # Projects | Total \$ (Millions) |
|--------------|-----------------------|--------------------------------|-----------------------|------------|------------------------|
| A | Microbiological | GW/SW | A | 13 | 11.287 |
| B | Nitrates | GW | A | 2 | 0.200 |
| C | Nitrates | GW | B5, B10 | 9 | 3.650 |
| D | Chemicals | GW/SW | A, B5 | 2 | 2.485 |
| F | Chemicals | SW | Watershed | 10 | 7.598 |
| H | Microbiological | GW/SW | B5, B10, Watershed | 22 | 2.718 |
| I | All | GW | Buffer zone | 1 | 0.100 |
| Total | | | | 59 | 28.038 |

- The Department intends to use a \$4,040,835 set-aside from the FFY 1999 Capitalization Grant and \$4,199,655 from the FFY 2000 Capitalization Grant allotted during SFY 2000/01 towards funding projects on the SWP PPL. The Department invited applications from all projects in Categories A through D. Statements of Interest forms were received for 14 projects for a total of \$6.8 million. The Department expects to begin executing contracts for SWP projects in mid-2002.

V. FINANCIAL SUMMARY

The following discussion provides additional details on the financial management activities in the SDWSRF Program.

A. Status of Loans

The SDWSRF had twenty (20) closed loans and one (1) forgiveness of principal project, bringing the total funded projects to twenty-one (21) as of June 30, 2001. Appendix A displays the status of all SDRSRF loans to date. The forgiveness of principal project is not shown since it is not considered to be a loan. The report includes the loan amount, interest rate, term, cumulative disbursements, and schedule of principal and interest payments. DHS presents all loan activity by SFY.

B. Loan Disbursements/Cash Draw Proportionality

DHS disbursed \$55,657,198 in loans for this reporting period and \$371,198 from prior reporting periods, bringing the total disbursements to date to \$56,028,396. Appendix C lists cumulative disbursements, cumulative loan-related federal Automated Clearing House (ACH) cash draws, and the cumulative federal/state proportionality ratio resulting from cash draw activities. DHS is using the rolling average method to determine federal/state proportionality as defined in the Guide to Using USEPA's Automated Clearing House for the Drinking Water State Revolving Fund Program (EPA-832-B98-003).

C. Set-Aside Disbursements

DHS disbursed \$5,832,590 (Table 2) in set-aside funds for this reporting period. Disbursements since the program's inception now total \$10,174,562. Appendix C lists set-aside related cumulative cash draws and disbursements by type of set-aside.

D. Annual Repayment/Aging of Accounts

As of June 30, 2001, DHS had twenty (20) closed loans. Invoices are mailed to the water systems on a semiannual basis. Invoices are sent out on May 1 with payments due on July 1, and on November 1 with payments due on January 1. Projects under construction pay "interest only" until completion of construction at which time they begin payment of principal and interest. During the reporting period, principal repayments totaled \$167,578 and interest repayments totaled \$160,293 (Appendix E). The combined amount of repayments total \$327,871.

E. Loan Portfolio Analysis

DHS has twenty (20) loans in its portfolio that were funded as of June 30, 2001. As part of the application process to secure funding, DHS procedures require a financial review be conducted on each applicant to determine its ability to repay a loan. This is

accomplished through an Interagency Agreement with the California Department of Water Resources, which subcontracts with an outside financial firm, California Municipal Utilities. A credit analysis is performed as part of the contractor's review of the water system. The recommendation of the contractor assists DHS in identifying questionable loans, thereby reducing the Department's exposure to situations that may lead to future loan default. This first line of defense is part of DHS' administrative internal controls. Subsequent to providing a loan, the Department monitors its loan portfolio on a semiannual basis. Invoices are mailed to water systems semiannually and payment is due by July 1 and January 2. The Department utilizes an "aging of accounts receivable" tickler file if payments are not received by the due date. Thirty (30) day notices are automatically generated by the system and staff computes penalties for late payment. DHS will identify loans that are potentially weak and track them closely to ensure that conditions are not deteriorating. As of June 30, 2001 all loans were current. See Appendix E, loan portfolio tracking report.

F. Investments

The SDWSRF program had no investment earnings during the reporting period. The State Treasurer is charged with managing investment funds in compliance with state investment practices. The State of California prohibits investment earnings for its Surplus Money Investment Fund (SMIF) on General Fund (GF) money and the issuance of general obligation bonds. The state match of 20% under the two Assistance Agreements for this reporting period comes from general obligation bonds. Therefore, the State Controller's Office does not allow SMIF earnings for the SDWSRF Program.

When principal and interest from loans are repaid by PWSs to the SDWSRF fund, the entire repayment is designated as state money. We are requesting that the State Treasurer allow this revenue to be deposited into SMIF. The Pooled Money Investment Board, which is comprised of representatives from the State Controller's Office and Treasurer's Office, meet once a month to consider requests of this nature for approval.

G. Financial Statements

The SDWSRF Audit Report, which includes the financial statements, is attached to this report as Appendix D. The SDWSRF Program had its financial statements audited for SFY 2000/01. The report gave the SDWSRF Program an unqualified opinion. There were no material issues for our management to address. Minor findings were noted regarding the financial statements portion of the report and DHS has implemented the recommendations of the auditor.

VI. COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS

The State of California has complied with the conditions of the SDWSRF Operating Agreement. DHS has met and continues to be in compliance with the following conditions as described in the Operating Agreement:

- ☐ Establish state instrumentality and authority
- ☐ Comply with applicable state laws and procedures
- ☐ Review technical, financial, and managerial capacity of assistance recipients
- ☐ Establish SDWSRF loan account, set-aside account, and SDWSRF administration account
- ☐ Deposit all funds in appropriate accounts
- ☐ Follow state accounting and auditing procedures
- ☐ Require SDWSRF loan recipient accounting and auditing procedures
- ☐ Submit IUP and use all funds in accordance with the plan
- ☐ Comply with enforceable requirements of the Act
- ☐ Establish capacity development authority
- ☐ Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- ☐ Develop and submit project priority ranking system

DHS has met the following conditions as described more fully below:

- ☐ Take payments based on payment schedule

DHS has received payments from USEPA based on the schedule included in the grant awards made for SFY 2000/01. Appendix C includes a schedule of grant payments received.

- ☐ Deposit state matching funds

The State of California applied for and received both the FFY 1999 and 2000 Capitalization Grants last fiscal year. The required state matches of \$16,163,340 (20%) and \$16,798,620 (20%) were authorized by the California Electorate with the passage of Proposition 13 and made available in March of 2000 with the approval of general obligation bonds. Bonds will be sold when needed to raise the funds for the state match.

☐ Submit Annual Report and Annual Audit

The submission of this report, which contains the annual audit, fulfills the State of California's responsibility under the Grant Agreement.

The California State Auditor (State Bureau of Audits) conducts an annual audit of the SDWSRF Program. The audit addresses internal controls, financial statements, compliance, and all funding activity from the loan account and the set-aside accounts. For SFY 2000/01, this agency issued an unqualified opinion on the financial statements and compliance reports and reported that the internal control structure was without material weakness. The report is contained in Appendix D.

☐ Assure that borrowers have a dedicated source of repayment

DHS' contractor, the California Department of Water Resources, conducts a credit review evaluation for all PWSs. This evaluation determines whether or not an applicant has the ability to repay a loan. For all PWSs, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.

☐ Use funds in timely and expeditious manner

DHS has committed 117% of all available loan funds from the federal FFY 97 grant, 105% of all available loan funds from the federal FFY 98 grant, and 29% of all available loan funds from the FFY 99 grant. No commitments have been made against the FFY 2000 grant. Public water systems with binding commitments have moved in an expeditious and timely manner to start construction. DHS will be monitoring construction progress to ensure that operations are initiated according to schedule.

☐ Ensure recipient compliance with applicable federal cross-cutting authorities

DHS and all of its assistance recipients have complied with all applicable federal cross-cutting authorities. Compliance checks are mandatory for each project and environmental clearance is required for the project to proceed.

☐ Implement capacity development strategy.

DHS is in the process of implementing its capacity development strategy, which was finalized and accepted by USEPA in August of 2000. USEPA granted approval of DHS' 2000/01 TMF capacity development workplan on June 26, 2000.

☐ Conduct environmental reviews

For SFY 2000/01, there were 88 environmental clearances in progress, of which 59 were started, 20 were approved for Notice of Application Acceptance, and 16 were approved for contract. There were 6 projects that received an Environmental Impact Report, 38 that received Negative

Declarations, 29 that received a Notice of Exemption, and 17 SDWSRF applications that used a schedule for environmental compliance. Finally, DHS was the lead California Environmental Quality Act Agency for 20 projects (Table 6).

State Fiscal Year 2000 – 2001 Environmental Clearances

Table 6

| <i>SRF Number</i> | <i>Applicant</i> | <i>Started</i> | <i>Accepted</i> | <i>Finished</i> | <i>EIR</i> | <i>N.D.</i> | <i>NOE</i> | <i>Sched</i> | <i>Lead</i> |
|--------------------------|--|-----------------------|------------------------|------------------------|-------------------|--------------------|-------------------|---------------------|--------------------|
| 2010005-01 | Yosemite Spring Park Utility Company | | | | | | | | Yes |
| 0011126-01 | Tuolumne Utilities District | | | | | Yes | | | |
| 0510005-01 | Calaveras County Water District | | | 8/16/2000 | | Yes | | | |
| 5410038-01 | Terra Bella Irrigation District | | | 1/18/2001 | | Yes | | | |
| 1310001-02 | Brawley, City of | | | 3/21/2001 | Yes | | | | |
| 1210013-01 | Humboldt Bay Municipal Water District | | | 10/5/2000 | | Yes | | Yes | |
| 0011123-01 | Tuolumne Utilities District | | | | | Yes | | | |
| 3701780-01 | Richardson Beardsley Park, Inc. | | | 1/31/2001 | | | Yes | | |
| 1300614-01 | Wiest Lake County Campground - Imperial County | | | 8/9/2000 | | | Yes | | |
| 1310008-01 | Westmorland, City of | | | 8/9/2000 | | | Yes | | |
| 1310005-03 | Holtville, City of | | | | | | | Yes | |
| 5400701-01 | Sequoia Crest Water Company | | | 10/4/2000 | | Yes | | | Yes |
| 4810013-01 | Rural North Vacaville Water District | | | 4/30/2001 | Yes | | | | |
| 0011127-01 | Tuolumne Utilities District | | | | | Yes | | | |
| 0011205-01 | Tuolumne Utilities District | | | | | Yes | | | |
| 0011122-01 | Tuolomne Utilities District | | | | | Yes | | | |

| <i>SRF Number</i> | <i>Applicant</i> | <i>Started</i> | <i>Accepted</i> | <i>Finished</i> | <i>EIR</i> | <i>N.D.</i> | <i>NOE</i> | <i>Sched</i> | <i>Lead</i> |
|--------------------------|---|-----------------------|------------------------|------------------------|-------------------|--------------------|-------------------|---------------------|--------------------|
| 0011124-01 | Tuolumne Utilities District | | | | | Yes | | | |
| 0011121-01 | Tuolumne Utilities District | | | | | Yes | | | |
| 0011125-01 | Tuolumne Utilities District | | | | | Yes | | | |
| 3010001-02 | Anaheim, City of | | | 3/26/2001 | | Yes | | | |
| 3010082-01 | Serrano Water District | | 9/13/2000 | | | Yes | | | |
| 1200522-01 | Whitethorn Elementary School - Southern Humboldt Unified Shool District | | | 11/27/2000 | | | Yes | | |
| 2702148-01 | Asoleado Mutual Water Company | | | 12/20/2000 | | | Yes | | Yes |
| 0910006-01 | Grizzly Flats Community Services District | | 9/25/2000 | 2/23/2001 | | Yes | | | |
| 2010007-01 | Hillview Water Company | | 7/6/2000 | | Yes | | | | Yes |
| 0810001-02 | Crescent City | | | 3/23/2001 | | Yes | | | |
| 4010022-01 | San Luis Obispo County | | 9/27/2000 | | | Yes | | Yes | |
| 4710012-01 | Happy Camp Community Services District | | 9/28/2000 | | | | | | |
| 4910020-04 | Sonoma County Water Agency | | 9/22/2000 | 2/14/2001 | | Yes | | | |
| 4900647-01 | Sereno Del Mar Water Company | 7/3/2000 | 7/18/2000 | 3/5/2001 | | Yes | | | Yes |
| 2810009-01 | Berrsa Pines Water System - Spanish Flat Water District | 7/13/2000 | | | | | Yes | | |
| 2810014-01 | Spanish Flat Water District | 7/13/2000 | 7/17/2000 | | | Yes | | | |
| 1900827-01 | Hillcrest Mobile Home Park | 7/31/2000 | | | | | Yes | | Yes |
| 1600006-01 | Delta View Joint Union School District | 8/1/2000 | 8/3/2000 | | | | Yes | | |
| 0710003-01 | Contra Costa Water District | 8/2/2000 | 4/19/2001 | | | Yes | | | |
| 3701760-02 | Lake Morena Trailer Resort - Linda Bishop | 8/17/2000 | 9/7/2000 | | | | Yes | | Yes |

| <i>SRF Number</i> | <i>Applicant</i> | <i>Started</i> | <i>Accepted</i> | <i>Finished</i> | <i>EIR</i> | <i>N.D.</i> | <i>NOE</i> | <i>Sched</i> | <i>Lead</i> |
|--------------------------|---|-----------------------|------------------------|------------------------|-------------------|--------------------|-------------------|---------------------|--------------------|
| 1910155-13 | Southern California Water Company | 9/12/2000 | | | | | Yes | | |
| 4700523-01 | Grenada Water Company | 9/14/2000 | 9/25/2000 | | | Yes | | Yes | |
| 4100516-01 | La Honda/Pescadero Unified School District | 10/17/2000 | | | | | Yes | | Yes |
| 0510003-02 | Angels, City of | 10/18/2000 | 1/22/2001 | | | Yes | | Yes | |
| 1500121-01 | Plainview Public Utility District | 10/23/2000 | | | | Yes | | | |
| 1600503-01 | Curtis Water Company (Kern County) | 10/25/2000 | | | | | Yes | | |
| 5400544-01 | Allensworth Community Services District | 10/25/2000 | | | | Yes | | | |
| 0300016-01 | Volcano Community Services District | 10/25/2000 | | | | | Yes | | |
| 5410024-01 | Richgrove Community Services District | 10/31/2000 | | | | Yes | | | |
| 0110005-11 | East Bay Municipal Utility District (EBMUD) | 12/4/2000 | 5/2/2001 | | | | Yes | | |
| 4700521-01 | Siskiyou County | 12/11/2000 | | | | Yes | | | |
| 0310003-03 | Amador Water Agency | 12/27/2000 | | | Yes | | | | |
| 3910011-02 | Tracy, City of | 12/28/2000 | | | Yes | | | Yes | |
| 0310012-01 | Amador Water Agency | 12/28/2000 | | | | Yes | | Yes | |
| 0707576-01 | Pleasantimes Mutual Water Company | 1/2/2001 | | | | | Yes | | Yes |
| 0510012-02 | East Bay Municipal Utility District (EBMUD) | 1/4/2001 | | | | Yes | | Yes | |
| 1700610-01 | Ford's Acre Mobile Home Park - William Oswood | 1/9/2001 | | | | | Yes | | Yes |
| 1300561-01 | Red Hill Marina | 1/16/2001 | | | | | Yes | | |
| 1900903-01 | Sleepy Valley WC | 1/16/2001 | | | | | | | Yes |
| 1010035-01 | Del Rey Community Services District | 1/17/2001 | 6/8/2001 | | | | | Yes | |

| <i>SRF Number</i> | <i>Applicant</i> | <i>Started</i> | <i>Accepted</i> | <i>Finished</i> | <i>EIR</i> | <i>N.D.</i> | <i>NOE</i> | <i>Sched</i> | <i>Lead</i> |
|--------------------------|--|-----------------------|------------------------|------------------------|-------------------|--------------------|-------------------|---------------------|--------------------|
| 1009026-01 | O'Neill Cattle Feeding Corp - J.E. O'Neill | 1/23/2001 | | | | | | | |
| 2310001-01 | Fort Bragg, City of | 2/1/2001 | | | | | Yes | | |
| 1310006-01 | Imperial, City of | 2/2/2001 | | | | Yes | | | |
| 4210001-01 | Carpinteria Valley Water District | 2/7/2001 | 6/29/2001 | | | | | Yes | |
| 4210001-01 | Carpinteria Valley Water District | 2/7/2001 | 6/8/2001 | | | Yes | | Yes | |
| 3710006-04 | Escondido, City of | 2/14/2001 | | | | Yes | | | |
| 3200510-01 | Crescent Mills - Indian Valley Community Services District | 2/21/2001 | | | | | Yes | | |
| 3110017-03 | Sierra Lakes Community Water District | 2/23/2001 | | | | Yes | | | |
| 3110017-02 | Sierra Lakes Community Water District | 2/23/2001 | 6/25/2001 | | | Yes | | Yes | |
| 2702370-01 | S.P.C.A. of Monterey County (Society for the Prevention of Cruelty to Animals) | 3/7/2001 | | | | | Yes | | Yes |
| 1900158-04 | Little Baldy Water Company | 3/8/2001 | | | | | | | Yes |
| 1900158-01 | Little Baldy Water Company | 3/8/2001 | | | | | | | Yes |
| 1900158-02 | Little Baldy Water Company | 3/8/2001 | | | | | | | Yes |
| 2800543-01 | Capell Valley Water Company | 3/13/2001 | 6/25/2001 | | | | Yes | | Yes |
| 4210007-04 | Montecito Water District | 3/14/2001 | | | | | | Yes | |
| 4800572-01 | Trailer City - Eric Romer | 3/14/2001 | | | | | Yes | | |
| 4210007-02 | Montecito Water District | 3/14/2001 | 6/27/2001 | | | Yes | | Yes | |
| 1600004-01 | Four Seasons Mobile Home Park Stan Armsley (owner) | 3/19/2001 | | | | | Yes | | |
| 4900536-01 | Occidental Community Services District | 3/26/2001 | | | | Yes | | | |
| 1510040-02 | Kern County Water Agency | 4/3/2001 | | | | | Yes | | |

| <i>SRF Number</i> | <i>Applicant</i> | <i>Started</i> | <i>Accepted</i> | <i>Finished</i> | <i>EIR</i> | <i>N.D.</i> | <i>NOE</i> | <i>Sched</i> | <i>Lead</i> |
|---------------------------|---|-----------------------|------------------------|------------------------|-------------------|--------------------|-------------------|---------------------|--------------------|
| 1510040-03 | Kern County Water Agency | 4/3/2001 | | | | | Yes | | |
| 3910006-01 | Stockton East Water District | 4/4/2001 | | | | Yes | | Yes | |
| 0710003-18 | Contra Costa Water District | 4/24/2001 | | | | | Yes | | |
| 0710003-17 | Contra Costa Water District | 4/24/2001 | | | Yes | | | | |
| 5410012-02 | Strathmore PUD | 4/24/2001 | | | | Yes | | Yes | |
| 4310011-07 | San Jose Water Company | 4/30/2001 | | | | | | | Yes |
| 2900526-01 | Lake Combie Mobile Home Village - Gloria Siegle | 5/1/2001 | | | | | Yes | | Yes |
| 3510001-12 | Hollister, City of/Sunnyslope County Water District | 5/18/2001 | | | | Yes | | | |
| 4400571-02 | Davenport County Sanitation District | 5/30/2001 | | | | | Yes | | |
| 1500251-01 | Riverkern Mutual Water Company | 5/30/2001 | | | | | | | Yes |
| 0310012-03 | Amador Water Agency | 6/12/2001 | | | | | | Yes | |
| 2701278-02 | Rancho Chaparral Mutual Water Company | 6/26/2001 | | | | | | | Yes |
| TOTALS¹ | 88 Environmental Clearances in Progress | 59 | 20 | 16 | 6 | 38 | 29 | 17 | 20 |

¹ For SFY 2000/01, there were 88 environmental clearances in progress, of which 59 were started, 20 were approved for Notice of Application Acceptance, and 16 were approved for contract. There were 6 projects that received an Environmental Impact Report, 38 that received Negative Declarations, 29 that received a Notice of Exemption, and 17 SDWSRF applications that used a schedule for environmental compliance. Finally, DHS was the lead California Environmental Quality Act Agency for 20 projects.

APPENDIX A

PROJECT INFORMATION/LOAN STATUS

Cumulative Loan Portfolio Status as of June 30, 2001

The SDWSRF Program had twenty (20) closed loans and one (1) grant as of June 30, 2001. The table below reflects the 21 projects.

| (A) Water System ¹ | (B) Project No. | (C) Loan Amount | (D) Interest Rate | (E) Years | (F) Total Loans Disbursed | (G) Principal Paid | (H) Interest Paid | (I) G+H P & I Total |
|---|--------------------|---------------------|----------------------|------------------|---------------------------------|-----------------------|----------------------|---------------------------|
| Asoleado MWC | 2702148-01 | \$61,390 | 2.793% | 10 | \$33,725.00 | | | |
| Bella Vista WD | 4510014-03 | 100,000 | 2.32% | 5 | | | | |
| Calaveras County WD-West Point | 0510005-01 | Grant | N/A | N/A | | | | |
| City of Anaheim | 3010001-02 | 18,062,849 | 2.793% | 20 | 18,062,849.00 | | | |
| City of Brawley | 1310001-02 | 16,050,000 | 0% | 20 | 15,823,475.00 | | | |
| Crescent City | 0810001-02 | 7,000,000 | 0% | 20 | 6,526,251.92 | | | |
| LA Dept. of W&P | 1910067-01 | 17,751,425 | 2.32% | 20 | | | | |
| City of Vallejo | 4810021-01 | 6,675,000 | 2.32% | 20 | 6,675,000.00 | \$166,110.52 | \$97,370.88 | \$263,481.40 |
| City of Westmorland | 1310008-01 | 670,632 | 0% | 20 | 653,796.22 | | | |
| El Dorado ID | 0910001-01 | 1,045,711 | 2.32% | 20 | 708,250.18 | | 7,940.35 | 7,940.35 |
| El Dorado ID | 0910001-02 | 1,711,000 | 2.32% | 20 | 919,141.68 | | 7,168.62 | 7,168.72 |
| El Dorado ID | 0910001-22 | 1,171,500 | 2.32% | 20 | 748,225.47 | | 12,266.58 | 12,266.58 |
| El Dorado ID | 0910001-23 | 915,293 | 2.32% | 20 | 558,223.10 | | 4,099.41 | 4,099.41 |
| Faye Properties Inc | 5700720-01 | 50,000 | 2.32% | 20 | | | | |
| Hillview WC | 2010007-03 | 25,000 | 0% | 1 | 23,672.23 | | | |
| Humboldt Bay MWD | 1210013-01 | 11,677,030 | 0% | 20 | 2,254,030.61 | | | |
| Imperial Co. Wiest Lake Campground | 1300614-01 | 83,710 | 2.32% | 20 | | | | |
| Sereno Del Mar WC | 4900647-01 | 250,000 | 2.513 | 20 | 573,976.19 | | | |
| Solano ID | 4810010-01 | 2,127,300 | 2.32% | 20 | 1,460,022.38 | | 30,506.35 | 30,506.35 |
| Sonoma County Water Agency | 4910020-04 | 9,952,386 | 2.793% | 20 | 562,383.37 | | | |
| El Novato Trailer Park (Taylor Inv.) | 2100570-01 | 92,800 | 2.32% | 20 | 74,175.22 | 1,467.86 | 940.58 | 2,408.44 |
| Cumulative Totals | | \$95,473,026 | Avg. 1.82% | Avg. 17.8 | \$55,657,197.57 | \$167,578.38 | \$160,292.77 | \$327,871.15 |

¹ There are 21 funded projects, which represent 18 water systems, which total \$95,473,026 in loans.

APPENDIX B

ACCOUNTING & MANAGEMENT REPORTS

APPENDIX C

REPORT ON CASH DRAWS, DISBURSEMENTS, AND PAYMENTS

**MULTIPERIOD LOAN FUND CASH DRAW PROPORTIONALITY
AS OF 6/30/01 FOR THE 1997 THROUGH 2000 CAPITALIZATION GRANTS
SFY 1998/99, 1999/00 & 2000/01**

| | | | | | Loan Fund Account | | | | |
|---|--|--------|--|--|-------------------|------------|-------------|-----------------|---------------|
| | | Action | | | (A) | (B) | (C) | | |
| | | | | | Federal | State | Total | Federal Portion | State Portion |
| | | | | | Amount | Amount | Amount | A/C (Rounded) | B/C (Rounded) |
| Period 1 FFY97 (Grant Awarded September 15, 1998) | | | | | 63,270.654 | 15,136,520 | 78,407,174 | 81% | 19% |
| Cash Draws as of 8/15/99 | | | | | 0 | 0 | 0 | | |
| Ending Balance | | | | | 63,270.654 | 15,136,520 | 78,407,174 | | |
| Period 2 FFY 98 (Grant Awarded August 16, 1999) | | | | | | | | | |
| Beginning Balance | | | | | 63,270.654 | 15,136,520 | 78,407,174 | | |
| Grant Award Amount | | | | | 72,173.275 | 15,421,640 | 87,594,915 | | |
| Total | | | | | 135,443.929 | 30,558,160 | 166,002,089 | 82% | 18% |
| Cash Draws as of 8/15/00 (Only 1 cash draw) | | | | | 304,382 | 66,816 | 371,198 | 82% | 18% |
| Ending Balance | | | | | 135,139.546 | 30,491,344 | 165,630,891 | | |
| Period 3 FFY 99 (Grant Awarded August 16, 2000) | | | | | | | | | |
| Beginning Balance | | | | | 135,139.546 | 30,491,344 | 165,630,891 | | |
| Grant Award Amount | | | | | 71,603.596 | 16,163,340 | 87,766,936 | | |
| Total | | | | | 206,743.142 | 46,654,685 | 253,397,827 | 82% | 18% |
| Cash Draws as of 12/20/00 | | | | | 7,986.089 | 1,753,044 | 9,739,133 | 82% | 18% |
| Ending Balance | | | | | 198,757.053 | 44,901,641 | 243,658,694 | | |
| Period 4 FFY 00 (Grant Awarded December 21, 2000) | | | | | | | | | |
| Beginning Balance | | | | | 198,757.053 | 44,901,641 | 243,658.64 | | |
| Grant Award Amount | | | | | 79,793.445 | 16,798,620 | 96,592,065 | | |
| Total | | | | | 278,550.498 | 61,700,261 | 340,250,759 | 82% | 18% |

**CUMULATIVE LOAN, SET-ASIDE DISBURSEMENTS & CASH DRAWS FROM USEPA
AS OF 6/30/01 FOR THE 1997 THROUGH 2000 CAPITALIZATION GRANTS
SFY 1998/99, 1999/00 & 2000/01**

| CUMMULATIVE PROJECT SET-ASIDE DISBURSEMENTS | | CUMMULATIVE PROJECT SET-ASIDE CASH DRAWS | |
|---|---------------------|--|---------------------|
| Administrative Account (625) | \$5,648,252 | Administrative Account (625) | \$5,615,752 |
| Water System Reliability Acct. (626) | 258,222 | Water System Reliability Acct. (626) | 254,149 |
| Source Protection Account (627) | 2,094,527 | Source Protection Account (627) | 1,672,243 |
| Small System TA Acct. (628) | 2,173,561 | Small System TA Acct. (628) | 2,078,670 |
| SDWSRF Loan Account (629) ¹ | 56,028,396 | SDWSRF Loan Account (629) ¹ | 45,943,285 |
| Total Disbursements | \$66,202,958 | Total Cash Draws | \$55,564,099 |

¹ Draws from USEPA amount to 82% of the disbursements in accordance with the proportionality ratio.

GRANT PAYMENTS RECEIVED FROM USEPA BY CAPITALIZATION GRANT

GRANT PAYMENTS RECEIVED FROM USEPA FOR FFY 1999 CAPITALIZATION GRANT

| FFY | QUARTER | PAYMENT AMOUNT |
|-----------------------|----------------|-----------------------|
| 00 | 4 | \$7,500,000 |
| 01 | 1 | 5,000,000 |
| 01 | 2 | 12,600,000 |
| 01 | 3 | 25,000,000 |
| 01 | 4 | 30,716,700 |
| TOTAL PAYMENTS | | \$80,816,700 |

GRANT PAYMENTS RECEIVED FROM USEPA FOR FFY 2000 CAPITALIZATION GRANT

| FFY | DATE | PAYMENT AMOUNT |
|-----------------------|-------------|-----------------------|
| 01 | 1/1/01 | \$10,000,000 |
| 01 | 4/1/01 | 14,199,655 |
| 01 | 7/1/01 | 10,000,000 |
| 02 | 10/1/01 | 15,000,000 |
| 02 | 1/1/02 | 10,000,000 |
| 02 | 4/1/02 | 10,000,000 |
| 02 | 7/1/02 | 14,793,445 |
| TOTAL PAYMENTS | | \$83,993,100 |

APPENDIX D

AUDIT REPORTS (INCLUDING FINANCIAL STATEMENTS)

Audit Report

The SDWSRF Program has a contract with the California State Auditor (Bureau of State Audits) to conduct a yearly audit. The first audit included the 1997 Capitalization Grant (SFY 98/99) and was completed in April 2000. The second audit included the 1998 Capitalization Grant (SFY 99/00) and was completed in November 2000. The most recent audit included the 1999 and 2000 Capitalization Grants (SFY 00/01) and was completed in December 2001. The report gave the SDWSRF Program an unqualified opinion. There were no material issues for our management to address. Minor findings were noted regarding the financial statements portion of the report and DHS has implemented the recommendations of the auditor. The Audit Report is attached to Appendix D.

Financial Statements

The Financial Statements are prepared by the California Department of Health Services and filed with the State Controller's Office. Please see Appendix D.

APPENDIX E

ANNUAL REPORT ON LOAN
PORTFOLIO TRACKING OF BORROWERS

Loan Portfolio Tracking Report

The SDWSRF Program began scheduled loan repayments from water systems for principal and interest during SFY 2000/01. All water systems were current with their repayments.

The invoicing process of the Accounting Department is automated and keeps track of the timeliness of payments through an accounts aging process tickler file. Delinquent loans are flagged and staff contacts the water system. Since no water systems were delinquent, there was no need to follow up on delinquent loan tracking.

DHS has the following loans in its loan portfolio and tracks repayments to ensure that compliance with the loan contract is maintained. Non-payment of interest and/or principal according to the repayment schedule may be an indication of potential non-performing loans. Staff is prepared to intervene should an account become delinquent. All accounts were current as of June 30, 2001.

LOAN PORTFOLIO TRACKING TABLE

| (A) Water System Name | (B) Project Number | (C) Loan Amount | (D) Principal & Interest Billed | (E) Principal & Interest Paid | (F) D-E P & I Past Due | (G) Penalty Assessed |
|--------------------------------------|-----------------------|---------------------|------------------------------------|----------------------------------|---------------------------------|-------------------------|
| Asoleado MWC | 2702148-01 | \$61,390 | 0 | 0 | 0 | 0 |
| Bella Vista WD | 4510014-03 | 100,000 | 0 | 0 | 0 | 0 |
| Calaveras County WD-West Point | 0510005-01 | Grant | N/A | N/A | N/A | N/A |
| City of Anaheim | 3010001-02 | 18,062,849 | 0 | 0 | 0 | 0 |
| City of Brawley | 1310001-02 | 16,050,000 | 0 | 0 | 0 | 0 |
| Crescent City | 0810001-02 | 7,000,000 | 0 | 0 | 0 | 0 |
| LA Dept. of W&P | 1910067-01 | 17,751,425 | 0 | 0 | 0 | 0 |
| City of Vallejo | 4810021-01 | 6,675,000 | \$263,481.40 | \$263,481.40 | 0 | 0 |
| City of Westmorland | 1310008-01 | 670,632 | 0 | 0 | 0 | 0 |
| El Dorado ID | 0910001-01 | 1,045,711 | 7,940.35 | 7,940.35 | 0 | 0 |
| El Dorado ID | 0910001-02 | 1,711,000 | 7,168.72 | 7,168.72 | 0 | 0 |
| El Dorado ID | 0910001-22 | 1,171,500 | 12,266.58 | 12,266.58 | 0 | 0 |
| El Dorado ID | 0910001-23 | 915,293 | 4,099.41 | 4,099.41 | 0 | 0 |
| Faye Properties Inc | 5700720-01 | 50,000 | 0 | 0 | 0 | 0 |
| Hillview WC | 2010007-03 | 25,000 | 0 | 0 | 0 | 0 |
| Humboldt Bay MWD | 1210013-01 | 11,677,030 | 0 | 0 | 0 | 0 |
| Imperial Co. Wiest Lake Campground | 1300614-01 | 83,710 | 0 | 0 | 0 | 0 |
| Sereno Del Mar WC | 4900647-01 | 250,000 | 0 | 0 | 0 | 0 |
| Solano ID | 4810010-01 | 2,127,300 | 30,506.35 | 30,506.35 | 0 | 0 |
| Sonoma County Water Agency | 4910020-04 | 9,952,386 | 0 | 0 | 0 | 0 |
| El Novato Trailer Park (Taylor Inv.) | 2100570-01 | 92,800 | 2,408.44 | 2,408.44 | 0 | 0 |
| Cumulative Totals | | \$95,473,026 | \$327,871.15 | \$327,871.15 | 0 | 0 |

APPENDIX F

PUBLIC WATER SYSTEM BY-PASS PROJECTS